

FINANCIAL TIMES

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The Millennium bomb

Warnings of computer chaos herald the new millennium: in three special pages – tomorrow, Thursday and Friday – the FT examines how the world is preparing



WORLD NEWS

Saddam's deputy survives grenade assassination bid

Iraqi President Saddam Hussein's deputy escaped an assassination attempt in the south of the country, Baghdad television reported. Izzat Ibrahim, a senior member of the powerful Revolutionary Command Council, was attending a religious ceremony in Kerbala, a Shi'ite holy city, when assailants threw two grenades as he got out of a car. Several bodyguards and bystanders were wounded. Iraq accuses Unesco chief, Page 6

German coalition shows strains
Conflicts within Germany's new left-of-centre coalition erupted into the open as an important political ally of Chancellor Gerhard Schröder distanced himself from the thrust of the administration's planned tax reforms. Europe, Page 2; Currency battle lines drawn, Page 3

Turkey's Yilmaz at bay
Turkish prime minister Mesut Yilmaz made a last-ditch attempt in parliament to defend himself against corruption charges before facing a vote of censure tomorrow. Europe, Page 3

Banana war peace move
Brussels said it could accept a US peace offer of arbitration through the WTO to resolve the row over the EU's banana import regime if the US suspended a threat of unilateral sanctions. Trade, Page 4

Japanese coalition deal wobbles
The Japanese government was in turmoil after an agreement by the ruling Liberal Democratic party to form a coalition with the opposition Liberal party came close to collapse. Asia-Pacific, Page 6

Strikes hit EU
Transport to protest against European Commission plans to liberalise freight traffic severely disrupted the flow of passengers and goods in six EU countries. Europe, Page 2

Azerbaijan oil pipeline warning
Azerbaijan could lose \$500m a year in oil revenues from 2005 if the government decides to support the proposed Baku-Ceyhan pipeline for Azeri crude, say oilmen. Trade, Page 4

Adviser for Kenyan bank
Kenya's Central Bank has appointed an adviser to help manage the National Bank of Kenya following a \$2.2bn (\$34m) government bailout. International, Page 6

US opposes German nuclear call
The US rejected calls from the German government that Nato should consider committing itself never to use nuclear weapons first. Europe, Page 2

Cold kills 65 in Europe
An Arctic cold wave has killed 65 people throughout Europe. In Paris, fountains in front of the Eiffel Tower were frozen solid.

Madrid road tunnels plan
Spanish officials unveiled a \$2.2bn plan to ease Madrid's traffic congestion with a network of underground highways.

BUSINESS NEWS

Worst of Asian economic crisis 'may be over'

The worst of the economic crisis in Asia may be over, the Asian Development Bank has forecast. Overall economic growth for the 23 Asian developing countries, excluding Japan, surveyed by the ADB was expected to rise to 3.4 per cent in 1999 after a 1.9 per cent decline in 1998. Asia-Pacific, Page 6

Siebel and BTR, two of the UK's largest engineering groups, are merging to form the world's biggest control systems and automation company, valued at \$9.4bn (\$15.7bn). Companies and Markets, Page 23; Observer, Page 21; Lex, Page 22

Denmark, one of the world's highest-taxed countries, plans to transform itself into a zero-tax regime for international holding companies under a radical overhaul of fiscal regulation. Europe, Page 2

Deutsche Bank of Germany said it was in advanced stages of negotiations to buy Bankers Trust, in the largest ever takeover of a US financial company by a foreign competitor. Companies and Markets, Page 23; Observer, Page 21

News Corporation, the global media group controlled by Rupert Murdoch, said it intended to expand into television and entertainment across Europe and was looking to invest with other media companies. Companies and Markets, Page 23; Foot-hold in Europe, Page 25

Postbank, Hungary's fourth biggest bank, has put in place a restructuring programme designed to cut costs, shake up management, and clear out loss-making investments. European companies, Page 25

Thyssen, the German industrial group, said it was acquiring Dover Elevators from Dover Corp of the US. International companies, Page 26

Unum and Provident, the two largest disability insurers in the US, announced a \$5bn merger in an attempt to build revenues both in the US and internationally. US companies, Page 26

Regent Pacific, the Hong Kong-based asset management group, reported a US\$57.17m loss for the latest six months after writing off \$61.55m of unrealised losses on investments in former Soviet republics. Asia-Pacific companies, Page 24

Dresdner Bank, the German group, said it was keen to expand in Europe, possibly by way of an acquisition or a merger. European companies, Page 25

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 31

Germany to push ahead with EU tax harmonising plans

Pledge on 'havens' puts country on collision course with UK

By Peter Norman and Wolfgang Willemsen in Brussels

Germany's centre-left coalition government yesterday put itself on a collision course with its British Labour allies by pledging to push ahead with tax harmonisation in the European Union. Speaking at the European Union economics and finance ministers' council, Oskar Lafontaine, Germany's finance minister, said shutting down EU tax havens and harmonising corporate taxes would be high on Germany's list of policy priorities for an EU strategy for growth and jobs creation.

Germany promised to achieve the first results of its drive to ease the tax burden on employment during Bonn's EU presidency in the first half of next year.

Mr Lafontaine's call ran into strong opposition from Gordon Brown, the British finance minister, exposing one of the main fault lines between Britain and continental Europe.

Mr Brown warned that Britain would use its EU veto to halt any

unacceptable tax moves. "As far as Britain is concerned, tax policy is made in Britain not in Europe. It is by cutting taxes, not raising them, that is the way forward to create jobs," Mr Brown said.

"Britain has a veto on tax policy and we will not hesitate to use that if we have to."

The split over tax policy highlighted the limitations of an 11-page document in which the EU's Social Democrat and Socialist parties, grouped in the Party of European Socialists (PES), agreed a common approach to economic policies and reform.

The document, agreed in October by left-of-centre finance ministers and disclosed to the press during the past week, spoke of the need for efforts "to avoid harmful tax competition among member states".

But it emerged yesterday that Britain had tried to block discussion on a more far-reaching document written by Philippe Busquin, a Belgian politician and chairman of a PES working party on tax matters.

Mr Busquin's paper called for

"an effective minimum taxation on the corporate level as well as on the level of savings" to avoid unacceptable distortions of competition after next year's introduction of the euro, the European single currency.

It warned that tax competition resulted in an "increased tax burden on labour with negative effects on employment in Europe".

Mr Brown's officials told Mr Busquin that he had contradicted UK government policy in a number of fundamental respects, saying the paper "in its current form remains unacceptable to the UK".

When outlining his ideas for economic policy co-ordination in Europe, Mr Lafontaine underlined the importance of wages rising in line with productivity to stimulate consumption and growth.

Mr Brown, by contrast, highlighted a supply-side agenda to strengthen product and capital markets in the EU, including the venture capital market.

Making an indirect plea for lower interest rates, both Mr Lafontaine and Dominique



Dominique Strauss-Kahn, left, with Oskar Lafontaine yesterday. Picture: AP

They agreed there was no danger of inflation in Europe at present.

Awkward contradiction, Page 2
Battle lines are drawn, Page 3

Bull market sparks wave of M&A deals

By Richard Waters, William Lewis and Dan Sjöger in New York

The return of the bull market in stocks brought the mergers and acquisitions 'business' roaring back to life yesterday, with news of eight deals in the US worth \$1bn or more and a continuation of Europe's industrial consolidation.

Also, with US share prices rallying with their first record highs since July, and the autumn fears that had hung over the financial markets banished, Wall Street was looking forward to a new round of corporate unions in the weeks ahead.

The "three-month hit" suffered by the stock market has now passed, said Dennis Kozlowski,

chairman of Tyco International, a broad conglomerate that has been one of the fastest-growing US companies of the decade. "Corporate earnings look better. Business in general looks much more robust. The stock market feels good."

Tyco said it would use \$11.5bn worth of stock to buy AMP, an embattled maker of electrical equipment.

The purchase trumped a rival bid from AlliedSignal, which has offered \$9.7bn in cash - Wall Street's preferred currency for acquisitions at a time when share prices languished in the early autumn.

Tyco's shares have jumped more than 40 per cent in the past six weeks, giving it the ammunition to outflank its rival.

The deal was one of two giant unions in which companies took advantage of hefty increases in their share prices to launch acquisitions.

America Online confirmed that it was planning to use its supercharged stock to pay more than \$4bn for Netscape, the internet browser company that was itself once a darling of the stock market.

A fourfold increase in AOL's share price this year has left the company with a stock market value of about \$28bn, allowing it to swallow Netscape easily. Netscape, on the other hand, has missed out on Wall Street's latest love affair with internet companies, in spite of having the largest share of the browser market

and one of the most visited web sites.

The deals helped generate a very strong morning on Wall Street, which brought the Dow Jones Industrial average and other broad market indicators almost to the all-time highs they set mid-July.

The Dow reached above 9,300 for the first time since July 17, while the S&P 500 also reached its highest levels since that date.

European markets were also buoyant. In London, the FTSE 100 index had a third successive day of large gains, closing up 130.9 at 5,548.4. The market shared the pattern of other European markets.

In Germany, the Dax rose 2.3 per cent while the Swiss market

was up 2.6 per cent. The Paris CAC 40 index was up 43.11 at 3,845.81.

The return of the merger wave after its brief autumn lull is likely to continue at least until the end of the year, M&A experts said. "People believe things have settled down, the world isn't going into meltdown," said Morton Pierce, head of M&A at Dewey Ballentine, a law firm.

Among other deals yesterday, Deutsche Bank confirmed that it was in talks to buy Bankers Trust and Siebel said it would pay \$7.5bn for BTR.

Tyco offer for AMP, Page 23; Deutsche Bank, Page 23; Siebel and BTR, Page 23; Lex, Page 22; World stocks, Page 44; London stocks, Page 54

Clinton considers a new economic order

By Gerard Baker, travelling with President Clinton

When Bill Clinton, US president, was asked during his Tokyo visit what was the most important economic challenge facing the world, he replied without hesitation: "To adapt the international economic systems to the realities of the 21st century."

A few days later, in a discussion with Korean community leaders, Mr Clinton bemoaned the uncontrollable nature of modern global capital flows. He recalled how investment flooded into the Korean economy in the 1980s and most of the 1990s. Then, "problems came up, and boom, the money goes away."

"Don't be fooled," he said. "When \$1.5 trillion is moving around the world every day, the possibility for instability is great. You should not blame yourself. The situation is worse than it would have been because of the volatility and size of the financial crisis."

Clinton advisers say the president instinctively feels that change to the whole system is needed. Now that he has only 18 months left in his administration and the threat of impeachment is fading, it is an issue to which he could devote his prodigious energy.

So far, he has not made any specific proposals. He appears to be happy to leave the debate to

finance ministers and central bank governors of the Group of 22 industrialised and emerging market countries.

But his thinking may already be more radical than that prevailing in the US Treasury, the International Monetary Fund and the US Federal Reserve.

His view is that the bulk of the blame for the crisis of the past year lies with the countries themselves. What is needed, they say, are measures to deregulate, open markets and improve transparency.

Many economists admired by Mr Clinton, including Joseph Stiglitz, the former chairman of his council of economic advisers and now chief economist at the World Bank, have pressed for some form of controls.

Also, the president has recently finished reading an unpublished book by George Soros, which calls for radical changes to international financial markets. Soros says he was impressed by some of the arguments.

Mr Clinton often notes in private that great presidents have tended to achieve greatness in the teeth of crisis, pointing to Abraham Lincoln and Franklin Delano Roosevelt. It is harder, he says, to earn such a reputation in times of peace and prosperity.

If the international economic turmoil does truly require a radical response, perhaps Mr Clinton might have one last shot at greatness.

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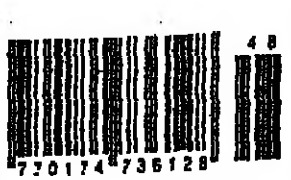
ORACLE Applications

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WORLD MARKETS

STOCK MARKET INDICES			
New York Composite	9,300.46	(+160.81)	
Dow Jones Ind	9,300.46	(+160.81)	
NASDAQ Composite	1,369.57	(+41.38)	
Europe and Far East			
FTSE 100	5,548.4	(+130.9)	
Nikkei	15,018.12	(+107.24)	
TOPIX	5,046.4	(+130.9)	
US BOND YIELDS			
1-Month	4.825%		
3-Month	4.54%		
6-Month	4.54%		
1-Year	4.54%		
OTHER RATES			
US 3 mo interest	6.7%	(109M)	
UK 10 yr Gilt	132.52	(132.52)	
France 10 yr Gilt	155.20	(155.20)	
Germany 10 yr Gilt	155.85	(155.85)	
Japan 10 yr Gilt	107.92	(107.92)	
NORTH SEA OIL (Apr)	10.535	(10.535)	
Drill Date	10.535	(10.535)	

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WORLD NEWS

EUROPE

HOLDING COMPANIES MOVE FOR ABOLITION OF WITHHOLDING TAX ON OVERSEAS DIVIDENDS DISMAYS DUTCH FACING LOSS OF REVENUES

Denmark plans fiscal rules overhaul

By Tim Burt in Stockholm and Clare MacCarthy in Copenhagen

Denmark, one of the highest-taxed countries in the industrialised world, plans to transform itself into a zero-tax regime for international holding companies under a radical overhaul of fiscal regulations.

The move, involving abolition of withholding taxes on company dividends transferred in and out of the country, could threaten the

Netherlands as Europe's premier location for holding companies seeking to minimise tax liabilities.

Dutch government officials, briefed on the Danish legislation in Copenhagen last week, were said to be dismayed at the loss of tax revenues if holding companies relocated to Denmark.

The new Danish proposals, which have received a first reading in parliament, could threaten low-tax holding company regimes in Luxem-

bourg, Belgium, Switzerland and Austria. They would also come into effect just as the European Commission steps up efforts to harmonise EU taxes.

Danish politicians have denied the move is aimed at flouting the Commission's drive to harmonise corporate tax and withholding taxes on interest income. "I do not believe there could be any EU problems. It's not our intention to create a tax paradise," said Ole Sla-

vad, Danish tax minister. Companies repatriating profits from overseas subsidiaries as dividends could cut their tax liabilities by exploiting the new rules.

Tax consultants in Copenhagen said they had been contacted by several large corporations seeking advice about setting up holding companies in Denmark.

Under the so-called L53 proposal, dividends paid by a Danish holding company to an overseas parent corpora-

tion would be tax free. The government has decided to ease its "participation exemption system", enabling Danish companies to receive dividends tax free from foreign subsidiaries.

Denmark does not levy capital gains tax on the sale of shares in overseas subsidiaries, provided those shares have been held for at least three years. The upshot is that Denmark will become a leading company holding location," said Ned Shelton,

a Copenhagen-based international tax consultant. Deloitte & Touche, the accountancy firm, said the system would be unique. The UK and Ireland also have no withholding taxes on dividends paid out to overseas parent companies, but dividends paid to UK and Irish companies from overseas subsidiaries are taxable. If the measures receive final approval, they will come into force in January.

Awkward contradiction at heart of havens

By Jim Kelly in London

Many multi-national businesses are likely to be rubbing their hands today at the prospect that Denmark may soon join the ranks of governments that offer significant tax breaks to lure companies onshore.

The Danes are claiming to have edged ahead of the competition with their plans for a zero-tax regime for holding companies. But other countries have similar schemes and some may upgrade to match them.

Politicians have understood that creating a beneficial tax regime for such com-

panies can be a big business in itself. They have been spurred by the advent of economic and monetary union and the ability of "footloose" companies - in sectors such as IT - to choose a holding company location irrespective of geography.

The globalisation of companies has greatly increased demand for holding company structures that can be used to regulate the flow of dividends so the amount of tax paid is minimised - a perfectly legal strategy for multi-national businesses.

"Practically everybody is in the holding company game," said Peter Cussens,

of PwC, the big new accounting company. "About a third of the FT-SE 100 has mixers [an offshore holding company] used to weave together income streams to maximise tax advantages," he said.

But at the heart of political enthusiasm for tax regimes is an awkward contradiction. Most countries involved are at an international level trying to end "harmful" tax competition. The Organisation for Economic Co-operation and Development, Group of Seven leading industrial nations, and European Union are all trying to attack the worst excesses of

tax havens. "There is a lot of hypocrisy talked about this - a certain amount of double speak," said Nigel Eastaway, of the Chartered Institute of Taxation in the UK. He pointed to the recent establishment of the UK holding company regime and noted that innovative parts of the Danish scheme would be widely welcomed elsewhere.

"The UK is doing a review of double-tax relief and it will be interesting to see if they join in," said Joy Sevast-Sales, tax expert with KPMG. The Dutch lead the field at the moment for holding company relief, but

similar schemes exist in countries like Luxembourg. Most countries have an offshore regime which can be useful for securing tax advantages for big businesses - and not just in the area of holding companies. The UK has Gibraltar, Spain the Canaries, Portugal has Madeira, Italy has Campione in Switzerland, France has Monaco, and the Netherlands the Dutch Antilles.

Governments stand to gain from such schemes. Small amounts of tax do have to be paid - especially if surplus cash needs to be held in the holding company. Also, in

most countries new companies have to be formed generating registration fees and professional fees.

"They are also trying to get the business established in their jurisdiction so that while they don't get the direct tax they do spur employment and get the tax from that," said Mr Eastaway.

Meanwhile, Brussels, led by Mario Monti, single market commissioner, is pushing ever harder to harmonise tax in the EU. But until politicians accept the need to curb some tax competition - and less business to centres outside the EU - that goal looks ever more distant.

AEROSPATIALE FLOTATION

Lagardère in talks on staff participation

By David Owen in Paris

Lagardère, the French defence and publishing company, is understood to be negotiating with the French government on conditions for its employees to participate in next year's planned flotation of Aerospatiale, the state-owned aerospace group.

Word of this new wrinkle in efforts to merge Aerospatiale with Lagardère's Matra defence interests has emerged as Paris appears to be preparing a strategy to respond to any move by British Aerospace and Germany's DASA to proceed with their own two-way tie-up without waiting for France.

Ministry sources yesterday confirmed reports of a ministerial meeting last week at prime minister Lionel Jospin's Matignon base at which the subject of a British-German merger was discussed.

They said one possible response under study was to transfer the state's 40 per cent holding in Thomson-CSF, the defence electronics company, to Aerospatiale.

Such a move would strengthen links between the two French defence groupings that have taken shape around Thomson-CSF and Aerospatiale, making them better able to compete against US and Anglo-German groups.

Mr Jospin's office, however, said there was no government plan aimed at bringing together Thomson-CSF and Aerospatiale. The first priority was still to finalise the Aerospatiale-Matra merger.

Sources close to Aerospatiale-Matra merger negotiations indicated that good

progress was being made, with valuations expected to be agreed shortly and the flotation likely to proceed by the end of March.

But they equally made clear they were under no illusions that they had headed off all prospect of a two-way BAE-DASA merger.

The negotiations between Lagardère and the government are understood to concern both the eligibility of Lagardère employees for any special terms offered to their Aerospatiale counterparts in the initial public offering, and whether any shares allocated to them should be taken from the 30.53 per cent stake in the new grouping Lagardère itself is set to emerge with.

Neither Lagardère nor the French finance ministry would comment.

Under plans for the Aerospatiale-Matra merger outlined in July, the government indicated that Aerospatiale employees would be "associated more directly with the development of the company through an offer to buy shares which will be reserved for them". It also said the combined stake of the public sector and employees in the new group would be above 50 per cent.

As well as France's Airbus interest, Aerospatiale also produces helicopters, missiles and space launchers. Lagardère will put into the new group its 100 per cent-owned defence systems and information activities as well as its 50 per cent stake in Matra BAE Dynamics, a missile venture with BAE, its 51 per cent holding in Matra Marconi Space, a venture with GEC of the UK, and 50 per cent of Matra Nortel, a communications venture.



Cars and buses try to negotiate their way through the flooded streets of Athens yesterday. Greece, like much of Europe, has suffered from a cold snap which forecasters predict is on the wane. Reuters

US rejects German call on Nato nuclear stance

By Stephen Fidler in Washington and Frederick Stilleman in Bonn

The US yesterday rejected calls from the German government that Nato should consider committing itself never to use nuclear weapons first in a conflict.

With Rudolf Scharping, German defence minister, visiting Washington, his US counterpart described Nato's refusal to commit itself to No First Use as "something that's integral to the Nato strategic doctrine".

William Cohen, US defence secretary, said at the Pentagon: "We think the ambiguity involved in the issue of the use of nuclear weapons contributes to our own security, keeping any potential adversary who might use either chemical or biological [weapons] unsure of what our response would be. So we think that it's a sound doctrine. It was adopted certainly during the cold war, but modified... and reaffirmed fol-

lowing the end of the cold war. It is an integral part of our strategic concept, and we think it should remain exactly as it is."

Mr Scharping, who yesterday met Madeleine Albright, US secretary of state, is due to meet Mr Cohen today.

Yesterday, the German government moved to play down the differences with its Nato allies. But a foreign ministry spokesman insisted the adoption of No First Use was a valid discussion point.

Since Nato last drew up a strategic concept at the end of the 1980s, the geopolitical situation had changed with the ending of the cold war stand-off and the unification of Germany.

Nato is due to agree a new "strategic concept" in Washington next April marking the organisation's 50th anniversary. The German stance, enshrined in the programme of Chancellor Gerhard Schröder's "red-green" government of Social Democrats and Greens, has raised concerns among Germany's

allies about its commitment to continuity in foreign policy. Earlier this month, Germany broke ranks with its Nato allies when it abstained on a United Nations motion concerning nuclear disarmament put forward by non-aligned countries.

In an interview with Der Spiegel magazine published yesterday, Joschka Fischer, German foreign minister and Green party member, said he had told Javier Solana, Nato secretary-general, that Germany wanted to discuss No First Use "because we see things differently".

"There are no longer divisions of tanks standing on the inner-German border and able to break through to the [English] Channel in 48 hours," he said.

"That was the situation on which the atomic weapon planning was based. We must discuss this openly in the alliance without allowing the impression to emerge that Germany is now planning to go its own way."

German coalition tax clash erupts

By Ralph Atkins in Bonn

Conflicts within Germany's coalition government erupted last night as an important political ally of Chancellor Gerhard Schröder, distanced himself publicly from the trust of the new administration's planned tax reforms.

The comments by Wolfgang Clement, prime minister of the economically powerful state of North Rhine Westphalia, worsened simmering disputes over policy and strategy that have developed since Mr Schröder's appointment as chancellor four weeks ago.

Mr Schröder's aides admitted yesterday that "communication mistakes had been made, and indicated they were open to 'properly financed' suggestions for improving personal and corporate tax reform plans.

Proposals for higher "ecological" charges on energy have had to be reworked to include exemptions for industry. Mr Schröder has also been buffeted by disputes over the tax and social insurance treatment of part-time jobs paying DM630 (\$399) a month or less.

The complex disputes have been damaging to Mr Schröder because of his reputation as a communicator and his election pledge to "do things better" than the preceding government. They have also muddled policy objectives: plans to clamp down on employer exploitation of "DM630 jobs" have been watered down, while economists argue the "ecological" package will have little effect on the environment.

Still to be worked out is how to fund the tax shortfall created by the decision to remove tax on DM630 jobs, but deduct social insurance contributions instead. Much of the burden will fall on the 16 state governments, including North Rhine Westphalia.

Yesterday, Green party coalition allies called for regular meetings of senior figures in the SPD-Green coalition to resolve conflicts and set long-term strategy. But the Greens stopped short of formally invoking crisis resolution mechanisms included in the coalition agreement signed last month.

It emerged at the weekend that Mr Clement, seen as on Mr Schröder's modernising wing of the SPD, had written two weeks ago to the chancellor calling for substantial changes in the government's personal and corporate tax proposals, including substantially lower top and basic income tax rates.

Mr Clement's proposals were branded "irrelevant" by Rainer Schlögl, Green parliamentary leader. But in a television interview, Mr Clement insisted "something must be done" to help small and medium companies.

NEWS DIGEST

ECONOMIC AND MONETARY UNION

Sharp growth in support for euro within Sweden

Support for Swedish participation in economic and monetary union (Emu) has risen sharply in spite of the government's wait-and-see approach to the single currency, the euro, according to an opinion poll published in Sweden at the weekend.

The poll, published in the Dagens Nyheter newspaper, showed support for the euro rising to 36 per cent - up from 26 per cent in a similar poll in April. Opposition to Emu membership fell from 41 per cent to 35 per cent.

It is the first time that an opinion poll has indicated support for the single currency overtaking opposition.

Erik Asbrink, the country's finance minister, said yesterday that growing support for the euro could increase the prospect of a referendum on Swedish membership during the current four-year parliament. Speaking at a meeting of finance ministers in Brussels, he said: "We do not have a strong Yes majority at the moment, rather things look very even and we do not know how stable public opinion is."

Sweden's ruling Social Democratic party has ruled out membership of the euro in the first wave next year, even though the country has no opt-out from the Maastricht treaty. Tim Burt, Stockholm

POST-WAR ACCORD

Croatia and Bosnia sign deal

Croatia and Bosnia have signed an accord aimed at settling their thorny post-war relations. According to the deal, landlocked Bosnia receives the right to use the Adriatic port of Ploče, while Croatia is given free transit through Neum, a short strip on the Adriatic coast.

The signing of these agreements heralds a new chapter in relations between Bosnia and Croatia and makes the distance between Zagreb and Sarajevo a much shorter one. Jacques Klein, the US diplomat who helped broker the accord, Croatian troops battled Bosnian government troops during the war in Bosnia, until the two sides agreed under US pressure to form a federation, which now covers one half of Bosnia-Herzegovina. The parties are committed to draft detailed annexes to the accord by next July. Reuters, Zagreb

CZECH AND SLOVAK PREMIERS

Closer ties are pledged

The Czech and Slovak prime ministers yesterday met for the first time in a year, pledging closer ties and the quick resolution of property disputes arising from the break-up of Czechoslovakia in 1993.

It was the first meeting between Milos Zeman, Czech prime minister, and Mikulas Dzurinda, the new Slovak premier, whose broad social democratic alliance defeated the nationalist grouping led by Vilemír Mediar in Slovakia's recent elections. Mr Dzurinda said the two governments had agreed to solve outstanding property disputes, over Czechoslovakia's gold reserves and state debts, within a year. Reuters, Bratislava

REFERENDUM

Albanians 'vote for change'

Wolfgang Schüssel, foreign minister of Austria, which at present holds the European Union presidency, said yesterday Albanians appeared to have voted for a new democratic constitution in a referendum on Sunday. "Even if no final figures are available yet, it is clear more than half of eligible Albanian voters took part in the referendum and an overwhelming majority were in favour of the new constitution," Mr Schüssel said. The official result is not expected until today. The socialist-led government of Pandell Maljko, prime minister and the opposition Democrats, led by the former president, Sali Berisha, who boycotted the vote, have both claimed victory. Reuters, Vienna

STEEL TRADE

EU to become net importer

The European Union will become a net importer of steel for the first time this year because of a surge of cheap exports caused by the collapse of demand in Asia, according to the Organisation for Economic Co-operation and Development.

The OECD's steel committee said imports were likely to remain high next year. It also forecast a continuing fall in EU exports, which would lead to an even bigger steel trade deficit. The OECD announcement comes as Eurofer, the EU steelmakers' association, finalises a request for protection against alleged steel dumping. Eurofer will target six countries, including Taiwan, and is considering whether to add South Korea to the list.

The European complaints follow a sustained campaign for protection by American steelmakers. The US administration is considering appeals for anti-dumping action against Japan, Russia and Brazil.

The OECD report said steel imports into the EU "at incredibly low prices" were rising, leading to a "significant fall" in overall market prices. According to Eurofer, prices for some products have fallen by 30 per cent in six months. Kevin Brown, Industry Editor

STANDARD & POOR'S

Rating boost for Bulgaria

Standard & Poor's positive outlook and credit rating of B assigned to Bulgaria yesterday paves the way to rating upgrades next year, provided the country persists with reforms, bankers and a government official said. "Progress in macroeconomic and structural reforms should secure further upgrades," said Peter Botoucharov, Bank Boston emerging markets research vice-president.

Early this year Bulgaria requested ratings from Standard & Poor's, Fitch IBCA and Moody's Investor Service for a \$200m debut Eurobond issue, initially planned for this year, but postponed after the Asian and Russian crises. S&P's positive Bulgaria outlook is significant, given that against the backdrop of the financial crisis many rating agencies downgraded a number of emerging market countries recently," said Plamen Oresharov, deputy finance minister.

Standard & Poor's gave Bulgaria B long-term and short-term local and foreign currency issuer credit ratings. S&P said the ratings were constrained by the country's heavy external indebtedness and delayed structural reform. The agency said Bulgaria had progressed towards macroeconomic and financial stability since the country's economic crisis in early 1997 and the outlook on the long-term ratings was positive.

"Continued financial discipline and steps toward structural reforms have secured important bilateral and multilateral support," S&P said. "With a successful acceleration of structural reforms, Bulgaria's rating could advance in the year ahead," it said. Reuters, Sofia



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Strike hits passenger and goods traffic

By Michael Smith in Brussels

Strikes to protest against European Commission plans to liberalise freight traffic severely disrupted the flow of passengers and goods in six European Union countries yesterday.

Rail traffic in Belgium ground to a halt while in France two thirds of SNCF trains, the state-owned railway operator, were cancelled. Traffic flows suffered in Luxembourg and Greece, while Spain's Renfe rail company said it managed to operate skeleton services without difficulty. Portugal suffered minor traffic disruptions.

The Commission wants countries to open up 25 per cent of their freight markets

to competition within 10 years. It sees liberalisation as the most important of a series of measures to encourage business to transport more goods by rail, relieve road congestion and improve the environment.

However, the Commission said yesterday that liberalisation would take years to achieve and was not on the agenda of a meeting of EU transport ministers next Monday. Ministers would be discussing measures to enhance the efficiency of rail freight. Neil Kinnock, EU transport commissioner, said all countries understood that the huge loss in rail's share of the freight market had to be reversed if it was to survive as a significant mode of transport.

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Europe
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Battle lines are
over currency

سكاي من الامم

Yilmaz in last ditch drive to stay as PM

By Leyla Bouton in Ankara and Paul Butts in Milan

Mesut Yilmaz, Turkish prime minister, yesterday made a last ditch attempt in parliament to defend himself against corruption charges before facing a vote of censure tomorrow.

In a clear indication his days in office are numbered, Mr Yilmaz was allowed only three minutes in which to make his case against allegations he facilitated a corrupt bank privatisation. His own

party acknowledged he was likely to lose tomorrow's parliamentary vote.

With behind the scenes negotiations on the shape of an interim government to take over from Mr Yilmaz already underway, Turkey continued to raise the stakes yesterday in its bitter diplomatic row with Italy.

Turkish officials and companies announced new sanctions against Italy for its refusal to extradite Abdullah Ocalan, leader of the Kurdish Workers Party (PKK).

Ankara accuses Mr Ocalan of terrorism and blames him for a war that has cost 30,000 lives.

Turkey will cease cable broadcast of two Italian state-run television channels, Rai-1 and Rai-3, while Arif Denktasoglu, transport minister, was quoted as saying that Turk Telecom, the state-owned utility, would halt all business with Italian companies.

Massimo D'Alema, Italian prime minister, attacked Ankara's decision to boycott

Italian commercial interests and said his government was merely following the rule of law in its handling of Mr Ocalan.

Mr D'Alema's government also had some pointed words for Germany. Lamberto Dini, foreign minister, said Italy had arrested the Kurdish militant leader because of an international arrest warrant issued by Germany. He said Rome had not done this to "keep him in Italy", implying that Germany should now request his extradition.

In Ankara yesterday however Mr Yilmaz was fighting for his own political survival. He dismissed as "all lies" the corruption allegations which Deniz Baykal, head of the left-of-centre CHP party, cited as the reason for withdrawing support for Mr Yilmaz's fragile coalition.

Mr Baykal is spearheading tomorrow's censure motion together with Fazilet (Virtue), the Islamist party which could gain the biggest share of the votes

in elections scheduled for April 18.

Before Mr Yilmaz was able to proceed further with his defence in parliament, he was cut off by the speaker who said the prime minister was entitled to only three minutes. Agah Oktay Guner, deputy chairman of Mr Yilmaz's Motherland party, conceded the government would not survive tomorrow's censure motion. But he said Mr Baykal had denied Mr Yilmaz the basic right to a fair defence.



Mesut Yilmaz, Turkish PM: Fighting for his position

AP

EBRD TRANSITION REPORT

East Europe trend 'slower, more erratic'

By Kevin Done, East Europe Correspondent

The transition to market economies in East Europe and the former Soviet Union has been "slower and more erratic" in 1998 than in any year since the collapse of communism, according to the European Bank for Reconstruction and Development.

Moreover, the gap between the countries of central and eastern Europe, and most of the former Soviet Union - excluding the Baltic states - is widening.

"Countries which have balanced privatisation and liberalisation with deep institutional reforms have been more resilient to recent global pressures," says the EBRD in its 1998 Transition Report, published today.

Hungary and Poland, the leaders in pushing through tough structural and institutional reforms, have best survived "the stress-test" of global financial turmoil.

"The striking contrasts in the region show that stability and growth require markets with competition and financial discipline, and private ownership with effective corporate governance and the rule of law," said Nick Stern, EBRD chief economist.

Financial sectors in much of east Europe and the former Soviet Union remain "significantly underdeveloped" and are failing to deliver crucial services to the real economy.

According to the report banking systems are "stunted", particularly in lending to the private sector, compared with those of market economies at similar levels of development elsewhere

in the world. Securities markets in the region "remain small and function poorly".

The performance gap between the countries of central Europe and most of the former Soviet Union, excluding the Baltics, is widening alarmingly.

Five countries, Poland, Slovenia, Slovakia, the Czech Republic and Hungary, are now exceeding or are close to achieving output levels of 1989, while recovery has barely started in much of the former Soviet Union, with gross domestic product in many states still languishing at barely half the 1989 level.

Russia's economic collapse, in particular, has exacted a heavy toll in the region, pushing it back into recession. The contraction is forecast to become more severe next year. The achievement of overall economic growth in the region last year, for the first time since the collapse of the Berlin Wall, has proved short-lived.

The EBRD forecasts a decline in output in the former eastern bloc of 1 per cent this year and 2 per cent in 1999. The fall is primarily due to recession in Russia, however, where GDP is expected to decline by 5 per cent in 1998 and 7 per cent in 1999.

Growth in central and east Europe and the Baltic states (excluding the Commonwealth of Independent States) is slowing for the third year in succession and is forecast to fall to 3 per cent this year from 3.6 per cent in 1997 and a peak of 5.5 per cent in 1996. The bank remains optimistic that growth in these countries will be maintained

GDP forecasts			
	1998	1999	1998 GDP % change relative to 1997
Albania	5.0	5.7	87
Bulgaria	4.0	5.6	86
Croatia	4.2	7.6	76
Czech Republic	1.0	7.7	77
Estonia	5.0	5.9	59
FRY Macedonia	5.0	5.9	59
Hungary	4.0	5.6	86
Latvia	4.0	5.6	86
Lithuania	3.0	5.3	83
Poland	5.2	11.8	118
Romania	-5.0	7.6	76
Slovak Republic	5.0	10.0	100
Slovenia	4.0	10.3	103

GDP			
	1998	1999	1998 GDP % change relative to 1997
Armenia	6.0	4.0	40
Azerbaijan	6.7	4.2	42
Belarus	5.0	7.5	75
Georgia	0.0	3.5	35
Kazakhstan	1.0	6.3	63
Kyrgyzstan	4.0	6.0	60
Moldova	-2.0	3.0	30
Russia	-5.0	5.5	55
Tajikistan	3.0	4.1	41
Turkmenistan	5.0	4.4	44
Ukraine	0	3.7	37
Uzbekistan	2.0	5.0	50

Source: EBRD. * March 1998 = 100

In 1999, however, it forecasts a rise in output of 3.6 per cent next year with the increase from 1998 largely because of the return to marginally positive growth in Romania, the fourth largest economy in the region, after two years of deep recession.

Poland has achieved seven years of strong, unbroken growth and the EBRD forecasts a further rise in output of 5 per cent in 1998 following increases of 4.2 per cent and 5.9 per cent in 1996 and 1997, respectively.

Hungary too is expected to grow strongly after overcoming the tough austerity measures of the mid-1990s. GDP is forecast to rise by 4.4 per cent next year.

EBRD 1998 Transition Report, price £30. Available from: The Stationery Office Publications Centre, PO Box 276, London SW2 3DT, UK. Fax: +44-171-875-8200. Tel: +44-171-875-9092.

Moscow is warned of dangers in resorting to printing money

But EBRD still sees little sign of a realistic response to turmoil, reports Kevin Done

The Russian authorities still show "little sign of a realistic response" to the daunting fiscal problems facing the country since it collapsed into economic turmoil in the summer.

The EBRD warns in its 1998 Transition Report that printing money, the Russian government's "likely reaction" to the crisis, will lead to high inflation and hardships for the population with sharp increases in poverty and mortality.

If reforms are to be implemented in Russia, a new and viable political consensus is required. But it is difficult to see such a consensus emerging rapidly, despite the fact that "the costs of prolonged delay are likely to be severe".

Outside assistance can be helpful, but any solution will

depend "primarily on domestic decisions and leadership," says the bank, which has become one of the biggest investors in Russia, since it was established in 1991 to support the transition to a market economy in the former communist eastern bloc countries.

The government has failed to break the political stalemate in the face of powerful vested interests. It remains reluctant "to accept the social and political consequences associated with resolving problems of such great magnitude," says the EBRD. Priority must be given to tackling the fiscal crisis and to rebuilding the collapsed financial sector.

In the absence of other sources of funds a tightening in state finances equivalent to 5-6 per cent of gross

domestic product is "essential" in coming months to achieve a balanced budget.

Such fiscal austerity would still take no account of the estimated 5 per cent of GDP in sovereign debt service that is due in 1999, but the EBRD accepts there will be strong pressures to reschedule some of these payments.

The restructuring of the banking sector must be undertaken urgently. Banks of strategic importance that are viable must be put into rehabilitation with the state injecting capital, acquiring a controlling interest and replacing managements. Non-viable banks must be liquidated. Bank restructuring must be open and transparent.

"If the process reflects discrimination or cronyism, the old problems are likely to return," warns the report. According to the EBRD

the root cause of the turmoil in Russia lay in large part in the failure to confront the problems of enterprise reform. The government failed to overcome "strong and manipulative vested interests both from old structures and the new oligarchs".

The Russian privatisation model left control of most companies in the hands of existing managements.

'A new and viable political consensus is required'

which succeeded in blocking reform and restructuring. "The Russian experience is the most powerful example of the damaging consequences of insider ownership, which are particularly severe, when insiders have inherited or developed strong ties to government," says the report.

The EBRD says the magnitude of Russia's problems

appears to be unique, but it warns that similar processes are at work in a number of countries across the region, particularly but not exclusively in the Commonwealth of Independent States.

The weakness of the Russian state created ample opportunities for managers and bankers to "capture" politicians and bureaucrats at every level of government. "This was a fertile environment for the growth of corruption."

Russia's actions now are giving crucial signals to investors for future investments. The report says it is vital the economy is not further undermined by "discriminatory tax collection, misguided direction of investment, heavy subsidies and avoidance of restructuring or closure of non-viable companies."

A vibrant and entrepreneurial private sector has emerged in Russia, says the bank. It has suffered deeply in the crisis, but remains the main hope for Russia's economic future.

Death of Russian market liberalism, Page 20

Economic indicators for euro-11 countries

	Sep 1998	Aug 1998	Jul 1998	Jun 98	May 98	Apr 98	1997	1996
Inflation (annual % change)	1.0	1.2	1.4	1.4	1.4	1.4	1.67	2.27
Unemployment (%)	10.9	11.0	11.0	11.1	11.2	11.2	11.5	11.5
Trade (€ bn)								
Exports	n/a	n/a	71.6	68.7	65.8	62.2	708.8	682.7
Imports	n/a	n/a	82.4	81.4	87.0	88.2	874.0	824.2
Trade balance	n/a	n/a	-10.8	-12.7	-21.2	-26.0	-66.2	-141.5
Industrial production (%)								
(3 mo over previous 3 mo)								
Q2 1998	1.0	1.0	1.0	1.1	1.2	1.2	4.171	0.871
GDP growth (%)								
Q2 1998	2.4	3.5	3.2	2.5	2.5	2.5	2.5	1.6

Source: Eurostat. * preliminary ** estimated. 1. not available. 2. for which quarterly figures are not available for 1997 and 1998 were used to estimate the monthly rate. 3. annual % change.

Battle lines are drawn over currency targets



By Wolfgang Münchau in Brussels

Oskar Lafontaine, Germany's finance minister, has hit a raw nerve among central bankers with his proposal to introduce target zones for the world's leading currencies to stabilise exchange rate fluctuations. Last Friday, Wim Duisenberg, president of the European Central Bank, and Hans Tietmeyer, president of the Bundesbank, both publicly rejected the idea as undesirable and unfeasible.

They received powerful support from Alan Greenspan, chairman of the Federal Reserve Board, and Eddie George, governor of the Bank of England.

Target zone systems can take different forms. One possibility is a system of semi-fixed exchange rates against an anchor currency, such as the dollar or the euro. The other currencies are allowed to fluctuate

within a margin either side of a central exchange rate. If a currency hits the floor or ceiling of its fluctuation margin, the central banks intervene to stabilise the rate. Less formal arrangements are also possible.

The debate about exchange rate target zones is over cause and effect. The central bankers argue that target zone systems, such as the Bretton Woods system, were tried and failed. Currency fluctuations, they say, are not the cause of economic misalignments but a symptom. Currency fluctuations, they say, can act as a useful shock absorber when countries experience economic shocks.

Given that many central banks follow a price stability target, the bankers argue that if politicians were to set target zones for exchange rates, the ECB and other central banks would have to target the exchange rate as well as price stability. The two targets could conflict. Proponents of target zones argue that much of the volatility between the dollar, the D-Mark and the yen during the 1990s cannot be

explained on fundamental grounds because all three countries experienced relatively low and stable inflation rates throughout the period.

Peter Bofinger, dean of economics at Würzburg University, for example, argues that exchange rates are the main cause of instability in the international economy. He suggests a return to the Bretton Woods system. In the US, Fred Bergsten, director of the Institute for International Economics in Washington, is the most prominent proponent of a system of formal target zones.

The issue remains unresolved. Mr Lafontaine has become less vociferous of late, but his ambition to end two decades of laissez-faire international economics remains unbroken. He has promised a European initiative in due course.

The battle lines are drawn, but the forces may be unevenly matched. While the central bankers agree among themselves, the politicians have yet to reach a common position.



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Antoni Gaudí, Chairman Design for the World.

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WORLD TRADE

Azerbaijan 'faces loss' if Turkey pipeline is chosen

By Robert Corzine in London

Azerbaijan could lose as much as \$300m a year in oil revenues from 2005 if the government of President Heydar Aliyev decides to support the proposed Baku-Ceyhan main export route for Azeri crude.

Mr Aliyev - who has the final say on the pipeline's route - has repeatedly said that Baku-Ceyhan, which is backed strongly by the US

and Turkey, is the most politically attractive of the three options under consideration, given that it would reduce the dependence of Azerbaijan and other former Soviet republics in the Caspian Sea region on Russia.

But western oilmen say much of the added cost of going to Ceyhan, instead of to Supsa in neighbouring Georgia, would be borne by the Azeri government. That

is because of cost recovery clauses in the production sharing agreement with the Azerbaijan International Operating Company, the 11-member consortium overseeing the \$10bn-\$12bn development of three big offshore fields in the Caspian Sea.

Most shareholders in the British Petroleum-led AIOC are said to favour the Supsa route, although John Leggate AIOC president, yesterday

told a conference in London that "all options are still open", including a possible northern line to Novorossiysk in Russia.

He said AIOC understood the sensitive geopolitical concerns underlying the pipeline debate. But he emphasised that the chosen route must be able to attract finance.

In recent weeks Turkey has increased the political pressure on AIOC and its

shareholders to endorse the 2,000 km Ceyhan route, which carries an estimated cost of \$3.7bn, compared with \$1.8bn for Supsa and \$2.5bn for Novorossiysk. The cost per barrel of sending crude via Ceyhan is expected to be around \$4, against \$2 or so for Supsa.

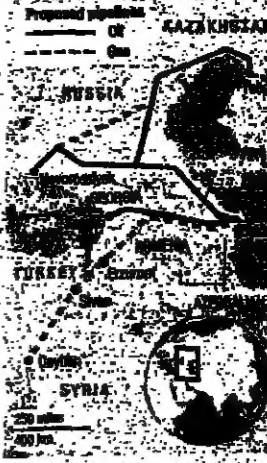
Last week Ankara announced restrictions on dealings with BP and Amoco. The two companies, which are to merge by the

end of the year, hold more than a third of the shares in AIOC. Turkey has also said it will not buy Caspian oil unless it is delivered by pipeline to Ceyhan.

Turkish officials complain that AIOC cost estimates for the Ceyhan option are inflated. They believe it can be built for about \$2.2bn. AIOC admits "there is more contingency in our estimates", but says there are important differences in the

proposed route and different technical specifications. Although a final recommendation could emerge as early as December 4, when a joint Azeri-Turkish government/AIOC committee is due to meet, Mr Leggate said it was "important to take the time to find the right solution".

Turkey has yet to give details of its planned tariff schedule to AIOC, nor has it disclosed promised financial incentives.



BANANA DISPUTE BRUSSELS SETS OUT CONDITIONS FOR SETTLEMENT AT WTO

EU will accept peace offer if US drops threat

By Neil Buckley in Brussels

The European Union yesterday indicated it could accept a US peace offer of arbitration through the World Trade Organisation to resolve the row over the EU's banana import regime - but only if the US suspended a threat of unilateral sanctions.

Sir Leon Brittan, EU trade commissioner, also said that the EU would launch tomorrow a separate WTO challenge to the US domestic legislation, Section 301, on which Washington is basing

its sanctions threat. Section 301 allows in theory, unilateral measures to be taken against trading partners. The EU says imposing them would violate WTO rules.

Sir Leon wrote to Charles Barshfsky, US trade representative, with a formal response to Washington's offer last Thursday to seek an accelerated disputes panel ruling from the WTO on the banana dispute.

He said the EU would agree to a panel only if the US suspended its timetable for imposing trade sanctions

it has threatened if the EU fails to amend its banana regime to Washington's satisfaction. Washington also had to undertake to accept the ruling, even if it went against the US.

Washington says the banana regime, which gives preferential access to the EU for bananas from former British and French colonies in Africa, the Caribbean and the Pacific, unfairly discriminates against US companies that distribute Latin American bananas.

The WTO upheld a US complaint over the regime

last year, and Washington argues that changes introduced by the EU do not go far enough to comply with the WTO ruling. It has threatened sanctions - which could take effect as early as February 1 - if Brussels does not make further changes by January 1.

The letter received a cautious initial response in Washington. Jay Ziegler, the US Trade Representative's spokesman, said the US made clear last week it would not exercise its domestic trade legislation authorising sanctions until WTO procedures had run their course.

But it was reluctant to "decouple" its use of domestic legislation from any WTO action.

"Just as the EU has applied its own domestic standards throughout this dispute, so we believe that doing so is fully within our WTO rights," Mr Ziegler said.

"We have consistently indicated we are interested in solving this issue through the WTO, and not because we are obligated to take this extra step that we proposed last week, but as a good faith effort to solve the problem," he added.

Israel reduces its forecast of export growth

By Avi Machlis in Jerusalem

Israeli exports will grow only 2.1 per cent in 1998, the slowest rate in 15 years, with diamond and electronics companies hardest hit by the Asian economic crisis, the Israel Export Institute said yesterday.

The Institute, a trade promotion group, said the decline from last year's export growth rate of 9.4 per cent will cost the Israeli economy \$1.4bn, more than 1 per cent of gross domestic product. The Institute projects exports - the engine of Israel's economy - will grow only 2 per cent next year.

Sluggish export growth will complicate government efforts to revive the economy, which is expected to grow only 1.5 per cent this year. Exporters say they are not reaping the benefits of a long-awaited devaluation of the shekel, since interest rates remain high.

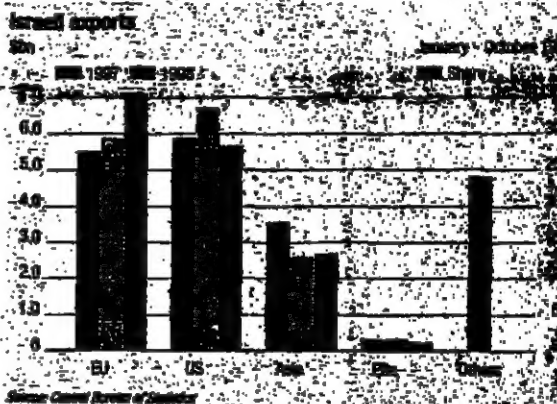
The Bank of Israel recently raised its key lending rate 4 percentage points in as many weeks to 13.5 per cent, to stem a surge in inflation caused by a sharp devaluation of the shekel. "We are also asking the government for \$300m for political risk insurance and special marketing programmes to help companies

penetrate new markets," said Daniel Bloch, spokesman for the Export Institute. Israel's trade deficit has narrowed over the past year, from \$5.47bn in the first 10 months of 1997 to \$3.65bn in the period this year. "But that is no consolation," said Mr Bloch. "Imports have been slowing down even faster than exports."

Exports to Asia, Israel's third largest market after the European Union and the US, have fallen 27 per cent in the year to October compared with the same period in 1997. Israel recorded a \$250m trade deficit with Asia in the first 10 months of the year compared with a surplus of nearly \$1bn in the same period last year.

In a separate survey, Dun & Bradstreet, the international analysis, said Israeli defence exports had declined sharply from 35 per cent of total exports a decade ago to 11 per cent in 1997.

Israel Aircraft Industries, the state-owned defence group, remains the biggest exporter. But the top 10 exporters are now dominated by technology and chemicals companies, including Dead Sea Works, the chemicals manufacturer, Tadiran, the electronics group, and Beltek, the electronic print maker.



NEWS DIGEST

INTERNET PRIVACY

EU-US clash on personal data directive drags on

The European Union and the US are unlikely to resolve a dispute over a Brussels data protection directive before the end of the year, a Commission official said yesterday.

Last week, member states concluded that US proposals designed to give personal data sent from the EU equivalent levels of protection were inadequate. The law, which came into force last month, empowers national data regulators in the EU to halt exports of personal data to countries they judge do not have adequate protection arrangements. The US has proposed ensuring data protection through voluntary self-regulation by industry.

The two main sticking points concern arrangements for ensuring that individuals can obtain information about the nature and use of personal data held by companies, and systems of redress when individuals complain about how personal data has been used. Emma Tucker, Brussels

GLOBAL TELECOMS

NTL and C&W share award

Barclay Knapp of NTL and Dick Brown of Cable and Wireless have been jointly named chief executive of the year in the first Financial Times global telecommunications awards. Established to recognise innovation in 11 industry categories, the awards were presented at a dinner held last night in New York's Roosevelt Hotel.

Norweb's digital power line was judged the most innovative fixed product, while Logica's M-Commerce won the mobile billing category. Kenan Systems Arbor took the award for best billing system. WinStar Communications of the US had the most innovative broadband development strategy and Cellnet's Genie was judged the best use of internet technology. The most competitive carrier was Mativ of Hungary, while Colt took the award for best newcomer. Eirell of Ireland and WinStar were joint winners of the most effective marketing campaign. Unidial made the best use of its website and Orange had the best customer care campaign. Alan Cane, London

INDIA INSURANCE

Foreigners can buy stakes

Foreign insurers are to be allowed to buy up to 26 per cent of private Indian insurance companies once the sector is liberalised, Yashwant Sinha, finance minister, said yesterday. Non-resident Indian investors could hold a further 14 per cent. Parliament will be asked soon to amend laws ending the current state monopoly and allowing private insurance companies. Mark Nicholson, New Delhi

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INTERNATIONAL

DOCUMENTS DISPUTE BAGHDAD WRITES TO UN TO EXPLAIN REFUSAL TO RELEASE PAPERS

Iraq accuses Unscm chief of 'concocting' crisis

By Roula Khalaf in Baghdad

Iraq yesterday stepped up its accusations against Richard Butler, the chief UN weapons inspector, and said it had written directly to the United Nations Security Council to explain its refusal to hand over documents to weapons inspectors.

Riad al-Qayasi, deputy foreign minister, said Mr Butler was "concocting" a crisis over documents and that he hoped the Security Council, which was meeting yesterday to discuss the dispute over documents, would see that the picture drawn by the chief weapons inspector was "without perspective".

The dispute is threatening to spark a new crisis over Iraq, just over a week after the US called off military strikes and Baghdad reversed its ban on all weapons inspections.

The letter sent yesterday by Tariq Aziz, deputy prime

minister, refuted suggestions by Mr Butler that Iraq was reneging on its pledge to resume co-operation, and said Mr Butler had raised old issues to delay the lifting of eight-year-old United Nations sanctions. Iraq told Mr Butler last week that several of the 13 documents he requested had been unilaterally destroyed.

Mr al-Qayasi said the issue of the destruction had been successfully resolved in 1994 with Rolf Ekeus, the former chief weapons inspector. Mr al-Qayasi read parts of a letter in which Mr Ekeus said he believed the information provided by Iraq on unilateral destruction of documents appeared comprehensive and sufficient.

"What Mr Butler contends is totally unwarranted," said Mr Qaisi. "We cannot interpret his position except in one sense: that he wants to manipulate the timing and substance of the comprehen-

sive review." This examination of sanctions will be Baghdad's first chance to put its case for lifting the sanctions directly before the Security Council, which will also hear Mr Butler's assessment of how far Iraq has moved on disarmament.

But the review can only take place after Iraq's commitment to resume co-operation with inspectors is tested. The US has said it remains ready to strike Iraq if Baghdad fails the test.

"With the latest episode, Mr Butler does not want to take us to the light at the end of the tunnel" of sanctions, Mr al-Qayasi said.

"What we see is the light of a locomotive coming at Iraq," Baghdad's attempt to justify its position follows comments by Mr Butler in which he cautions against over-reacting over documents and says his requests are part of other tests that inspectors will conduct.

Andrew Parker adds from London: Derek Patches, a UK foreign office minister, said yesterday the UK would support efforts to bring Saddam Hussein before an international tribunal on charges of committing crimes against humanity.

Mr Patches held talks yesterday with Iraqi opposition groups. While stressing it was not a goal of UK foreign policy to topple Mr Saddam, Mr Patches said his government would work with the groups to produce "a vision of an Iraq without Saddam Hussein: more open, more pluralistic, more democratic".

He added he had asked the groups to come up with firm proposals which could be presented during talks today with Martin Indyk, US assistant secretary of state. Mr Patches said he would look at plans to provide the groups with equipment to broadcast into Iraq.



Sacks of World Food Program corn air-dropped in Sudan last July. Food developed for famine relief could have wider uses

CHILD NUTRITION KENYAN BISCUIT MAKER'S FOOD PRODUCT COULD IMPROVE DIET OF POOR

Feasting on famine food

By Mark Turner in Nairobi

A Kenyan company's ambitions to place its specialised famine relief goods on the wider baby food market have cut to the heart of a growing debate in the aid world: how to harness private industry for developmental aims.

For the past 10 years, House of Manji - best known to Kenyans as a household biscuit manufacturer - has been carving out a name for itself as a small-scale but flexible producer of high-energy protein-enriched biscuits, shipped by the World Food Programme to feed displaced people throughout East Africa.

With help from the UN's child health arm Unicef and the WFP, it recently expanded into the world of blended food, producing a maize-soya mix which, when enriched with the correct vitamins and minerals, offers famine victims a balanced diet which is both cheap and accessible.

"It is not too expensive, and it doesn't change feeding habits," explains Stuart Allison, from the House of Manji's famine product division. "It is very similar to ground maize, and can be used to make ugali [corn meal], chapatis and buns."

But growing evidence that

micronutrient-enhanced blends can significantly improve children's brain development has prompted the company to look to a potentially far larger and more stable market - baby food.

In a continent where mother's milk is often HIV-infected, and traditional foods can lead to severe growth deficiencies, babies and small children could benefit substantially from more balanced products, as long as they are affordable.

"There is a real problem

populations to acquire beneficial goods without paying for pretty packages, and enables the groups that circulate them to earn money on the side.

Social marketing also helps to side-step the branding pitfalls that can accompany products associated with aid agency give-aways.

Mr Allison is wary, for example, not to suffer the same fate as an Ethiopian corn-soya blend known as Fafa, which proved impossible to sell after it was dis-

tributed by aid groups during the mid-1990s.

"People would not buy it any longer, as they saw it as a free product," he said. With social marketing there is no need to establish a high-profile brand, which can later lose value and sink the product.

Keen to spread cheap but effective nutrition to the wider community, Unicef and a large bilateral aid agency, which has asked not to be named, have started analysing the Manji product for effectiveness, and plan to start a feasibility study on

its marketing early next year. If the results are positive, they will help House of Manji gain access to community organisations.

"This product could be good for everyone," said a nutritionist with the aid agency. "If it actually reaches our target population, it would be terrific."

Yet a fundamental problem remains: if non-profit organisations are seen to be helping a private company, they can find themselves in philosophical hot water and lose the support of their funders.

Marinus Gotink, a nutri-

Micronutrient-enhanced blends can improve children's brain development

trying to get the right vitamins and minerals to the juvenile population," says Mr Allison. "We are now trying to get our product into local orphanages, churches and women's groups."

His chosen strategy - using community networks to promote a product without the usual advertising hype - is an increasingly interesting technique being developed by aid organisations, known as social marketing.

It has two advantages: first, it allows a far cheaper product, helping low-income

But the irony is that with-

out Unicef's initial support,

House of Manji might never

have developed the blended

food in the first place.

Kenyan central bankers act as bank comes under pressure

By Mark Turner in Nairobi

Kenya's Central Bank has appointed an adviser to help manage the National Bank of Kenya (NBK), the country's fourth largest bank, following a KShbn (\$34m) government bailout after rumours of illiquidity prompted account holders to withdraw KShbn last week.

"The unnecessary withdrawal of deposits has put severe pressure on the liquidity position of the bank," said Simeon Nyachae, the finance minister, at a press conference over the weekend.

"This has been made worse by its non-performing loans, including some owed to the bank by government-owned parastatals."

The measures follow two

months of instability among Kenya's smaller banks, and growing speculation that NBK, in which the government has a minority shareholding, could be the next to fail.

The Central Bank has placed five banks under statutory management over the past two months, including Kenya's seventh largest bank, Trust Bank. All are attempting to piece together rescue packages.

Analysts have played down the possibility of contagion, as the five have combined assets of only KShbn. But they say that if the National Bank fell, with assets worth KShbn, the effects could be far more damaging.

"If anything were to happen to NBK, one would see

wider repercussions in the commercial sector," said a senior figure in the Kenya banking community.

He suggested that depositors fleeing from smaller banks might question the top-flight banks as safe havens, but added that the government was unlikely to allow NBK to collapse, especially as its customers included thousands of teachers and other public servants.

Mr Nyachae moved rapidly to restore confidence over the weekend, saying that the government would pay money it owed to NBK debtors directly to the bank. He added that a further KShbn could be recovered if the country's commercial courts moved quickly.

Nevertheless, the size of

NBK's bad loans is still unclear, and analysts are asking whether the bailout is sufficient. "Personally, I am not sure it will be enough," said the senior banker.

Mr Nyachae blamed recent speculation about NBK on disgruntled small bank owners, which he said hoped to force the government into easing Kenya's 13 per cent cash ratio requirement.

But both the finance minister and the central bank have insisted that they will not sacrifice prudential and fiscal management to bail out private banks.

An International Monetary Fund mission left Kenya yesterday after examining the state of the country's banking sector, and is expected to issue a report shortly.

Corporate radar.

FINANCIAL TIMES

No FT, no comment.

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ASIA-PACIFIC

Hong Kong data deflate optimism

By Louise Lucas in Hong Kong

Glimmers of optimism on the Hong Kong economy were dashed yesterday by government figures showing negligible inflation and the biggest drop yet in retail sales.

The consumer price index in October was only 0.1 per cent higher than the previous year, showing that Hong Kong is firmly on track to enter a period of deflation.

This undermines one of the strongest indicators for recovery - lower interest rates. Deflation means that while the nominal level of interest rates is falling, real rates are rising. "Finally we've got things here," said Dong Tao, senior economist at Credit Suisse First Boston. "Deflation is going to be much worse than the government predicted. It's going to be severe - we've just seen the beginning of this."

More gloom was provided by the retail statistics for September, which showed a year-on-year plunge of 21 per cent in volume terms and 22 per cent in value terms.

Retail sales have been falling steeply throughout the year but the September figures showed the biggest yearly decline so far. Cars took the worst hit, with sales down 53 per cent in value.

The government attributed the retail slide to depressed consumer sentiment, a result of volatility in the financial markets.

However, stability started to return to the markets in September. August was Hong Kong's worst month after a speculative attack on the currency, which

prompted the government to launch an unprecedented buying spree on the stock market.

That move, aimed at eliminating speculation from the market, was a qualified success but the intervention raised new uncertainties in the minds of international investors and the public.

By the end of September, interbank interest rates - which had soared during the speculative attack - had softened. This prompted the commercial banks to cut their lending rates, most recently last Friday.

Lower interest rates delivered a boost to sentiment, and helped property prices creep upwards in recent weeks. Crowds of buyers descended on a development at the weekend, buying some 86 per cent of the 1,288 flats on offer.

That interest is likely to be tamed as deflation erodes the cuts in interest rates. The government said one factor behind the flat inflation was the government's property rates refund in the fourth quarter to help stimulate the economy.

But Mr Tao added that rents are also dragging inflation down. Residential rents are fixed for 12 to 18 months, which means falls in rents lag those of property prices and are only just starting to make an impact.

Other negative indicators for the economy include unemployment at a 17-year high and expected to climb higher. Government figures due on Friday are forecast to show a decline in third-quarter gross domestic product of around 7 per cent.

Worst of Asia's crisis 'may be over'

By Tony Tassell in Manila

The worst of the economic crisis seen in Asia over the past 18 months may be over, the Asian Development Bank (ADB) has forecast.

Jungsoo Lee, chief economist at the Manila-based institution, said some countries still faced a long road to recovery and were not likely to see positive gross domestic product growth until 2000.

Overall economic growth for the 23 Asian developing countries, excluding Japan, surveyed by the ADB was expected to rise to 3.4 per cent in 1999 after a 1.9 per cent decline in 1998.

However, the aggregate forecast was bolstered by relatively insulated China and India, which were forecast to see 6 per cent and 5.2 per cent growth respectively in 1999.

Indonesia, Malaysia, Korea and Hong Kong were forecast to remain in negative territory next year although the rate of economic contraction in the region was expected to slow.

"A return to more normal levels of economic growth, seen by these countries in the past, is likely to take a

few more years. Systemic crises take time to resolve," Mr Lee said.

He said that past studies indicated that a recovery from a "relatively simple" currency crisis focused on current account problems tended to take about a year.

More systemic crises involving the banking sector tended to take an average of three years to resolve.

Mr Lee said also it would be "very difficult" for Asian countries to achieve a recovery in export growth while domestic demand in the region remained subdued.

Before the current economic

crisis in the region, intra-regional trade accounted for 53 per cent of Asian exports.

He said that in the past decade, much of the growth in Asia had been supported by large capital inflows but now some countries were likely to face outflows.

While private capital outflows were expected to fall from \$24.6bn in 1998 to \$15.1bn in 1999, official fund inflows from sources such as multilateral agencies were expected to drop to \$5bn from \$26.3bn over the same period.

Mr Lee said although the IIF forecast may be pessimistic, capital inflows would be subdued at best.

He said a positive factor for the region was the \$300m stimulus package provided by Japan and a likely improvement in that country's economy following long-awaited reforms. "My view is that Japan is very close to or may have even passed a turning point."

However, risks remained for Asia, including political instability and structural problems in China in the banking sector and state-owned enterprises. M.G. Qubria, ADB assistant chief economist, said it would be

difficult for Asian countries to revive confidence without political stability.

The Japanese government was in turmoil yesterday after an agreement by the ruling Liberal Democratic party to form a coalition with the opposition Liberal party came close to collapse.

Ichiro Ozawa, leader of the Liberal party, criticised comments by LDP leaders suggesting that policy agreements were between party heads, not between the parties, and therefore not binding.

He warned that unless principles agreed with Keizo Obuchi, the prime minister, were adopted, there would be no coalition and a general election should be held as soon as possible.

In particular, he said that an agreement to reduce the number of cabinet ministers from 20 to 17 should be carried out immediately in a cabinet reshuffle.

However, Yoshiro Mori, LDP secretary-general, said there was no need for immediate action as cabinet posts would be reduced when the number of ministries was reduced in line with reform proposals.

Mr Ozawa also indicated he was still aiming for a temporary freeze of the 5 per cent consumption tax, which is unacceptable to the LDP.

Mr Obuchi and Mr Ozawa had signed a document indicating their intent to form a coalition. But the recent tensions illustrate the lack of firm agreement between the two sides.

LDP leaders backing the coalition stressed that the alliance would help stabilise the government and enable the governing party to pass crucial legislation through the Diet. Although the emergency budget does not need to be passed by the upper house, where the LDP lacks

a majority, legislation related to the budget and key bills to implement new US-Japan security guidelines will need Diet approval.

The coalition, which was agreed hastily without conducting the usual motions of building a consensus within the LDP, has sparked outrage among key LDP politicians who are antagonistic to Mr Ozawa.

Junichiro Koizumi, former health minister, criticised the agreement and said the LDP might have won the liberal party's co-operation but it was unlikely to win the support of the public.

In a weekend poll by the Asahi Shimbun, 45 per cent of respondents disapproved of the coalition due to its ambiguous motives.

Many LDP politicians are unhappy about the alliance with Mr Ozawa, whom the party has long considered enemy number one. Mr Ozawa's departure from the LDP in 1993, which triggered a party split, was widely blamed for the party's loss of its upper house majority.

Hironaka Nomura, the powerful chief cabinet secretary, once went so far as to call Mr Ozawa a "devil".

The Liberal party, meanwhile, risks losing the support of loyal followers who believed Mr Ozawa's aim was to force the LDP out of government and revolutionise Japanese politics.

If the return of Mr Ozawa to the LDP triggers the defection of the party's more liberal members, it may yet be Mr Ozawa who has the last laugh. But if the coalition crumbles before it takes off, Mr Ozawa's Liberal party could face a slow route to oblivion.

Indonesia riots 'provoked' by power struggle

By Sander Thomas in Jakarta

Religious leaders and politicians in Indonesia yesterday said the latest outbreak of religious riots was provoked by political power struggles and warned of more violence as the death toll from the clashes rose to 14.

Rescue workers yesterday pulled eight bodies from a torched gambling hall, the first of dozens of buildings burnt or damaged in riots on Sunday. Six men had been stabbed and beaten to death in clashes between Catholic Ambonese and large gangs of Muslims, which sparked a series of attacks on Christian churches and schools.

Abdurrahman Wahid, leader of the largest organisation of orthodox Muslims, joined Megawati Sukarnoputri, the opposition leader, in urging Indonesians not to let themselves be used for political battles. "The violence was not spontaneous," newspapers quoted them yesterday as saying. "There were certain groups of people who purposely led the mobs to destroy churches. We must be wary of their tricks."

Many Indonesians have made such statements, including President B.J. Habibie, both in reaction to Sunday's riots and to violence in recent months.

Few ever name the culprits but there are signs that Indonesians are being provoked into religious strife even when there is no religious issue at stake.

Some of Sunday's rioters waved flags of a Muslim party, which yesterday disclaimed any role in the clashes and suggested that the flags had been stolen. Earlier this month, gangs of armed youths, many of

whom admitted to being paid to protest in support of the government, donned Islamic headbands and shouted "Allah is great" as they clashed with student protesters who lacked any religious agenda.

Mr Wahid and other religious leaders have accused the military of organising a series of attacks on mosques and Islamic teachers of rival groups, killing more than 100 in a presumed effort to divide and rule and spark calls for military rule.

Many fear increased religious strife in the campaign



A parishioner in a ransacked Catholic church in Jakarta AP

Tokyo thrown into turmoil over coalition

By Michio Nakamoto in Tokyo

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BJP faces severe reverse in first electoral test

By Mark Nicholson in New Delhi

India's governing Bharatiya Janata party (BJP) this week faces a jolting reverse in its first electoral test since taking office eight months ago, opinion polls suggest.

Up to 35m people can vote tomorrow in four state assembly elections in Madhya Pradesh, Rajasthan, Delhi and the tiny north-eastern state of Mizoram.

The polls are seen as a referendum on the performance of the BJP-led central government, which is reeling under opposition attacks of mismanagement, notably of presiding over soaring food prices.

Analysts and opposition politicians have suggested

that a sharp swing against the BJP in the northern states of Madhya Pradesh, Rajasthan and Delhi could rock the BJP's increasingly fragile governing 16-party coalition, formed after last April's general elections.

Such a result may galvanise a newly confident Congress party, the biggest national opposition grouping, into manoeuvring to oust the BJP from power. "If Congress wins all three major states, then it's the endgame for the government," said Jaivram Ramesh, a Congress party secretary.

The state elections are unusual in being a direct contest between the BJP and Congress. The BJP is fighting to retain control of Rajasthan and Delhi, while vying to oust Congress from Madhya Pradesh.

Most opinion polls have suggested the electorate will once again vote strongly against the incumbent party, following the pattern of recent Indian elections. Half the sitting MPs before the last general election were voted out of office.

This trend would see Congress winning in Rajasthan and the symbolically important Delhi, while offering a small swing to the BJP in Madhya Pradesh.

The latest and broadest opinion poll, published at the weekend in India Today, shows the BJP lagging in all three main northern states. The poll of more than 12,400

voters shows a 16 per cent swing towards Congress in Delhi - a traditional BJP stronghold - and an 8 per cent swing to Congress in Rajasthan, which the BJP has held in two previous elections. The projected swing to the BJP in Madhya Pradesh might not be sufficient to give it victory.

The poll also finds, as have most others, that voters across north India are preoccupied with the recent sharp rises in food prices, notably onions and potatoes, though the BJP government rode an unprecedented wave of nationalist euphoria six months ago after detonating five nuclear test blasts.

In Rajasthan, where the tests were conducted, the

poll found that just 25 per cent of respondents said the nuclear tests would influence their vote, while 46 per cent said they would not. Food prices were top of Rajasthan voters' concerns.

The election results and resultant political manoeuvring are likely to dominate the re-opening of India's parliament for the winter session next Monday - a three-week sitting with a heavy legislative agenda, including several crucial economic bills.

A strong electoral rebuff for the BJP is expected to place further distance between the Hindu nationalist party and its regional allies, some of which have already signalled growing

frustration with the party's governing record.

A decisive swing to Congress would also increase pressure from within that party, and from other smaller opposition parties, to seek to topple the BJP and perhaps force fresh elections next spring.

Sonia Gandhi, Congress president, who is credited with having instilled renewed discipline into it, has consistently said she would not move unilaterally to topple the BJP coalition.

But she has insisted Congress would not shirk its "constitutional responsibilities" to form an alternative administration if the coalition dissolved under its own "internal contradictions".

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NOTICE OF MEETING

We have the pleasure of inviting you to attend the Annual General Meeting of shareholders, which will be held on December 3, 1998 at 11.00 a.m. at the registered office at 47 Boulevard Royal, L-1449 Luxembourg, with the following agenda:

1. Presentation of the reports of the Board of Directors and of the Auditors;
2. Approval of the balance sheet, profit and loss account as of September 30, 1998;
3. Discharge to be granted to the Directors for the financial year ended September 30, 1998;
4. Action on nomination for the election of The Hon. J. Ogilvy, André Ehrlich, Roberto Salas, Karen Charles and Uday Khanna as Directors and PricewaterhouseCoopers as Auditors for the ensuing year;
5. Any other business which may be properly brought before the meeting.

The shareholders are advised that no quorum for the purpose of the agenda is required, and that the decisions will be taken at the majority vote of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may not vote by proxy.

By order of the Board of Directors

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-point values.

UNITED STATES					JAPAN					GERMANY					
Year	Industrial production	Unemployment rate	Monthly rate indicator	Composite leading indicator	Year	Industrial production	Unemployment rate	Monthly rate indicator	Composite leading indicator	Year	Industrial production	Unemployment rate	Monthly rate indicator	Composite leading indicator	
1988	113.0	110.7	5.4	104.9	100.8	122.8	113.1	2.5	135.2	98.4	108.1	106.3	8.2	108.1	92.7
1989	115.5	112.7	5.2	97.9	100.1	130.8	119.7	2.2	148.3	102.5	111.9	111.4	5.6	111.9	96.7
1990	116.2	112.4	5.5	82.7	95.7	141.6	124.5	2.1	149.8	98.9	116.7	117.2	4.6	116.7	98.3
1991	115.3	110.2	6.6	61.7	95.1	144.5	126.6	2.1	144.2	95.3	125.0	121.7	4.2	125.0	95.5
1992	117.0	113.6	7.4	61.8	103.3	138.7	118.0	2.1	124.2	91.0	122.8	120.0	7.7	122.8	98.5
1993	122.2	117.7	6.8	67.7	106.7	131.7	113.6	2.5	105.8	92.5	116.7	112.6	7.9	116.7	98.5
1994	125.2	124.0	6.0	79.0	112.9	128.4	114.5	2.9	98.4	97.4	117.8	117.8	8.4	117.8	102.4
1995	126.6	125.2	5.5	82.7	126.1	128.4	116.5	3.1	103.2	98.8	118.5	118.4	8.2	118.5	98.1
1996	130.6	125.4	5.4	77.0	120.8	132.6	121.2	3.2	115.3	100.7	117.2	118.0	8.8	117.2	110.2
1997	143.0	141.4	4.9	78.0	128.0	132.0	126.8	3.4	120.8	97.5	116.7	112.5	9.7	116.7	109.5
3rd qtr. 1997	4.8	4.9	4.8	78.8	128.0	-1.5	3.8	3.4	123.8	98.3	-5.1	2.7	10.1	298.8	109.5
4th qtr. 1997	4.0	5.8	4.5	80.0	128.0	-2.8	-0.7	3.4	121.3	97.5	-1.6	3.3	10.3	298.3	109.2
1st qtr. 1998	5.1	4.7	4.6	81.7	128.1	-3.0	-3.9	3.8	112.8	96.5	0.4	5.7	10.0	315.9	111.6
2nd qtr. 1998	7.8	4.0	4.4	80.3	125.3	-4.5	-4.2	10.7	98.3	-4.5	1.5	3.4	9.8	354.1	111.6
November	4.2	5.8	4.6	82.6	126.3	-2.1	-2.7	3.5	118.2	98.2	-2.4	2.9	10.3	300.8	108.0
December	4.6	5.7	4.6	78.9	128.0	-4.4	-2.8	3.4	122.0	97.5	-2.7	3.2	10.3	301.6	108.2
January 1998	4.8	5.4	4.6	73.6	127.9	-1.8	-2.6	3.5	113.8	97.4	0.3	7.8	10.1	302.5	109.5
February	4.9	4.3	4.6	82.2	126.1	-5.2	-3.9	3.6	109.7	98.8	-0.2	4.9	10.0	317.5	110.9
March	5.5	4.5	4.7	83.2	129.1	-18.0	-6.1	3.8	114.7	96.5	1.0	4.0	10.0	336.8	109.5
April	7.0	4.3	4.3	80.0	128.9	10.8	-8.6	4.1	108.8	96.0	-1.8	3.0	10.0	332.5	111.1
May	6.2	4.5	4.3	80.3	129.5	-11.2	4.3	4.0	101.8	96.2	-0.2	5.5	9.7	336.1	111.1
June	7.6	3.2	4.5	80.4	129.3	-1.5	7.6	4.3	111.0	96.3	-2.1	6.7	9.7	370.6	111.1
July	8.5	2.1	4.1	81.4	128.3	-9.2	4.1	4.1	106.9	96.3	3.1	2.8	9.6	369.1	111.1
August	5.0	3.0	4.3	82.2	127.9	-9.2	4.2	4.2	108.0	96.2	2.2	5.6	9.6	377.5	110.9
September	5.5	3.5	4.3	83.3	128.2	-7.5	4.5	4.5	108.1	96.6	2.1	5.1	9.7	372.6	108.0
October			1.4												
FRANCE					ITALY					UNITED KINGDOM					
Year	Industrial production	Unemployment rate	Monthly rate indicator	Composite leading indicator	Year	Industrial production	Unemployment rate	Monthly rate indicator	Composite leading indicator	Year	Industrial production	Unemployment rate	Monthly rate indicator	Composite leading indicator	
1988	107.9	107.2	10.0	135.3	101.4	107.8	114.5	10.0	100.3	117.8	111.7	8.6	144.0	98.5	
1989	108.5	111.1	9.4	140.6	101.4	115.9	118.7	10.0	98.3	120.1	114.0	7.9	142.4	98.5	
1990	110.4	112.8	8.9	103.5	95.0	114.4	118.0	9.1	94.0	121.1	113.7	6.9	97.7	98.5	
1991	110.1	111.5	9.4	125.5	96.4	114.0	116.9	8.8	97.4	118.4	109.9	8.1	98.8	97.7	
1992	110.7	110.1	10.2	108.7	100.4	115.8	116.4	10.4	100.4	125.1	112.8	10.5	108.6	97.7	
1993	110.7	105.9	11.7	90.0	98.1	115.5	113.0	10.3	90.1	123.9	112.9	10.1	98.6	97.7	
1994	110.5	110.0	12.3	104.1	104.0	106.5	119.9	11.4	104.7	128.5	112.7	9.5	93.7	101.0	
1995	110.8	113.4	11.4	103.3	106.3	112.3	127.3	11.4	108.1	126.9	121.6	9.7	107.4	110.1	
1996	110.2	112.8	12.3	101.7	101.7	109.5	125.7	12.0	108.1	125.1	122.8	12.2	131.1	113.0	
1997	111.3	116.8	12.5	106.1	106.1	105.6	127.1	12.1	114.7	140.7	124.3	7.0	126.0	113.0	
3rd qtr. 1997	1.7	5.0	12.6	106.4		8.7	3.4	12.1	112.7	5.3	1.2	6.7	106.2	114.0	
4th qtr. 1997	3.0	6.2	12.4	106.4		7.9	5.8	12.1	114.7	5.1	0.3	8.5	106.0	115.0	
1st qtr. 1998	2.3	7.2	12.1	106.3		3.0	5.4	12.1	116.8	4.7	-0.1	8.4	159.0	116.0	
2nd qtr. 1998	5.2	8.5	11.9	102.9		4.3	1.3	12.3	115.0	3.2	1.0	6.2	168.5	114.0	
November	-0.5	4.9	12.4	106.3		7.4	4.6	n.a.	113.8	4.3	-0.1	0.5	161.7	115.0	
December	3.3	1.1	12.3	106.3		4.0	7.8	n.a.	114.7	5.2	-0.2	0.4	160.1	115.0	
January 1998	5.8	0.5	12.2	106.8		2.9	6.5	n.a.	116.0	6.5	-1.1	0.6	158.5	115.0	
February	2.0	6.6	12.1	107.1		5.5	2.4	n.a.	116.6	4.1	-0.4	0.5	160.4	115.0	
March	-0.8	8.4	12.0	106.3		8.8	1.3	n.a.	116.7	3.4	1.3	0.4	161.4	115.0	
April	4.0	4.4	11.9	106.8		3.0	0.7	n.a.	116.7	3.4	1.5	0.4	161.4	115.0	
May	1.2	5.8	11.9	106.1		4.1	2.9	n.a.	116.4	3.4	1.6	0.3	162.4	114.0	
June	4.9	6.1	11.9	106.9		5.9	0.3	n.a.	116.7	1.8	0.5	0.3	168.1	114.0	
July	2.9	3.3	11.8	110.5		3.9	1.5	n.a.	114.4	2.7	0.2	1.7	169.0	114.0	
August	2.0	3.3	11.8	110.5		3.0	-1.8	n.a.	113.8	2.5	0.7	1.6	169.5	114.0	
September	2.5	3.0	11.7	110.8			1.5			3.6	0.6	0.7	169.0	113.0	
October				108.8									171.3		

Ministers in Brazil quit over sell-off

By John Barham in São Paulo and Richard Lapper in London

Two Brazilian cabinet ministers and another top official resigned yesterday after it emerged they had influenced the \$19bn privatisation of Telebras, the telecommunications company.

Although the departures are a personal blow to President Fernando Henrique Cardoso, they could defuse tensions in Congress as the government pushes through an ambitious austerity programme, an essential condition for a \$41.5bn package of international financial support led by the International Monetary Fund.

Luiz Carlos Mendonça de Barros, the communications minister, Jose Roberto Mendonça de Barros, his brother, who was foreign trade secretary, and André Lara Resende, the head of the National Development Bank (BNDES), had been under fire since excerpts of taped conversations appeared in the local press earlier this month.

Opposition deputies alleged the tapes showed the government had tried to favour the Opportunity Consortium, a Rio de Janeiro investment fund, in the bidding for Tele Norte Leste, one of 12 Telebras subsidiaries sold earlier this year.

Mr Mendonça de Barros said last week the government had been trying to stimulate as much competition as possible. The fact that the Opportunity consortium, which was run by a former central bank president, did not buy Tele Norte

Leste showed that it had not received favourable treatment, he said.

Brazilian markets reacted calmly to the news, though it had not been expected. By early afternoon, the Bovespa index of leading Brazilian shares had gained more than 1 per cent.

"They will be missed in the privatisation process," said Carlos Kewill, chief economist at Citibank in São Paulo. "But this will not damage the prospects for fiscal adjustment."

Pedro Malan, the finance minister, said the privatisation process from which Brazil expects to generate a further \$42bn in revenues "will go ahead as planned. It would have been easier with them aboard but it is business as usual."

Although the published excerpts of the tapes do not show that Mr Mendonça de Barros used his position to enrich himself, commentators said the government had to avoid any suspicion of wrongdoing in the privatisation process.

David Wheeler, of Bear Stearns, the US investment bank, said "everyone involved in the affair has now quit. The government wants to nip this thing in the bud."

Francisco Gros, who heads the São Paulo office of Morgan Stanley, another US investment bank, and a former central bank chairman, said the scandal demonstrated that intervention in markets by government officials is still far too common in Brazil in spite of great advances in liberalisation.

FILM SECTOR UNEXPECTED SUCCESSES GIVE A LATE BOOST TO REVENUES

US cinema set to break box office records

By Christopher Parkes in Los Angeles

Helped by a late boost from unexpected successes, the US cinema is now certain to set a box office revenue record this year.

Aggregate ticket sales went over \$6bn at the weekend after *The Rugrats Movie* surprised even its most ardent industry fans by taking in about \$28m, and

for whom they were intended.

The biggest surprise to date came from Walt Disney, which earlier this month saw *The Waterboy*, a low-budget American football comedy, sell \$38m worth of tickets in its opening weekend.

Taking another \$18m last weekend, it reached official blockbuster status with aggregate sales of more than \$100m in three weeks.

The Rugrats Movie, an animated Paramount production spun off from the highest-rated children's television series, had been expected to gross about \$20m and come in second to Disney's *Enemy of the State*, which also opened last weekend.

But despite strong reviews and stars Will Smith and Gene Hackman, the political thriller had to settle for second place with revenues of \$20m.

Celebrity, the only other new release of the weekend, was tenth with about \$1.7m ticket sales despite the reputation of its director, Woody Allen, and the presence of heart-throb Leonardo di Caprio in the ensemble cast. Although the end of the year is usually the time for

Much credit will go to 'Titanic', which grossed more than \$600m

setting the year's total on course for about \$7bn.

Cinema attendance has also increased 5 per cent over last year, when the national audience was the biggest in almost 30 years.

While much of the credit for the advance will go to *Titanic*, which grossed more than \$600m in the US, ticket sales have been strongly supported by unlikely big winners which have appealed to a wider audience than the 18-to-25-year-olds



From left: Stu, Tommy, Dil and Dil Pickles star in 'The Rugrats Movie', an animated feature based on the popular TV series

studios to crowd cinemas with selections they favour for Oscar nominations, the holiday season which starts with this week's Thanksgiving celebrations is also

packed with candidates for big ticket sales.

Disney has *A Bug's Life*, its second computer-generated feature from Pixar, which made *Toy Story*, while

Dreamworks, which has already had a hit with the look-alike *Anita*, will challenge Disney again with its first conventional animation effort, *Prince of Egypt*.

Heavily promoted, this version of the story of Moses is already heavily tipped for commercial success and a clutch of Oscars next year.

NEWS DIGEST

CANADA MINISTER IS FIRST CASUALTY

Solicitor-general resigns over Apec controversy

Canada's solicitor-general resigned yesterday, becoming the first political casualty in the controversy over the government's role in the crackdown on demonstrators at last year's Asia-Pacific Economic Co-operation summit.

Andy Scott quit after he was overheard making comments that critics said could prejudice the outcome of a public inquiry into police behaviour at the summit. As solicitor-general, Mr Scott had responsibility for Canada's federal police, the RCMP, which are accused of using excessive force against students demonstrating in Vancouver.

In a statement yesterday from his home in New Brunswick, Mr Scott insisted he had done nothing to influence the outcome of the inquiry, but acknowledged he had become vulnerable to that accusation. "I came to the conclusion that I am now part of the process and therefore I step down as solicitor-general," he said.

Jean Chretien, the prime minister, has been embarrassed by revelations that his office encouraged a crackdown on demonstrators in order to avoid upsetting Indonesia's former president Suharto. Edward Alden, Toronto

PENTAGON'S ASIA REPORT

Crisis a core security concern

The Pentagon said yesterday it viewed Asia's financial crisis as a "core security concern". The assessment was contained in a report on US security strategy for the East Asia-Pacific region released yesterday by the Defence Department.

The report, the fourth it has issued on the subject since the beginning of the decade, emphasised the continuity of US engagement in the area and says its 100,000 military personnel in the region will remain in place. However, it pointed out that new security challenges have emerged since its last report in 1995.

"The Asian financial crisis has shaken the region's assumptions about uninterrupted economic development, and is testing regional economic co-operation, globalisation and the livelihood of two billion Asians," the report said. However, this was not the main, short-term security threat.

"The situation on the Korean peninsula will remain the most serious security threat in the Asia-Pacific region in the near term," it said. Stephen Fidler, Washington

CAYMAN ISLANDS LAWS

Tax co-operation rejected

The Cayman Islands has changed the laws under which it will co-operate with other jurisdictions in pursuing serious crimes, but says it will still not help with allegations of fiscal offences such as tax evasion which are not crimes in the territory.

Legislators have removed clauses which made an exemption for fiscal offences among the serious crimes which the legal authorities would help to investigate at the request of the US and the UK. But the alleged offences must meet a "dual criminality test" and be indictable under Caymanian law.

"Tax offences are not indictable in the Cayman Islands as there is no form of direct taxation in the territory," said Richard Coles, the attorney-general. "Alleged tax evasion will not satisfy the dual criminality test. However, we will consider requests for assistance in investigating serious crimes such as narcotics trafficking, fraud and money laundering," Canute James, Kingston

On the web today

● Big bucks, bigger ambitions: Bronfman and Turner show the way ● Venezuela: Chávez wants poll on new constitution ● Mexico: 100 police officers arrested <http://www.ft.com/americas>



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BRITAIN

STATE HEALTH SERVICE LEGISLATION WILL BE AIMED AT PREVENTING MULTIPLYING PRICES OF ESSENTIAL MEDICINES

Drug pricing agreement to become law

By Nicholas Timmins, Public Policy Editor

The government is to formalise the pharmaceutical price regulation scheme, the voluntary agreement that controls UK drug prices. Health ministers have won room in the planned National Health Service bill to place controls over the 40-year-old agreement.

The controls will aim to crack down on the growing practice by some big companies of selling on out-of-patent drugs - of which they are the sole supplier - to smaller companies which then hike prices two, four or even eightfold. The drugs can be essential to the state health service.

The PPRS controls company profits rather than prices directly. This means big manufacturers can find their prices for older products forced down as they make money on newer products. Once the drug has been sold on, however, small companies can charge much more for the drugs. The price of drugs used to induce labour and prevent haemorrhage after childbirth, for example, have risen seven to eight-fold recently, potentially adding £2m-£3m to hospital maternity departments' costs.

That is an abuse of the system and legislation is needed "to protect the integrity of the PPRS, to protect the integrity of those companies who play the game and to protect the taxpayer", according to a minister.

The switch to statutory control will be strongly resisted by the pharmaceutical industry. "Our fear is that once the scheme is statutory it will be used to control prices in other ways," one industry executive said. The Association of the British Pharmaceutical Industry has already run a campaign warning that taxes and controls over doctors' use of drugs are driving overseas a business that is Britain's third biggest export earner.

The association said yesterday that legislation would be "a retrograde step" and would send "negative signals" to companies planning to invest in Britain. Tony Blair, the prime minister, will today unveil a legislative programme of welfare, legal and industrial relations reforms. Robert Peston writes. But he will defer many of his more contentious plans until later in the session.

Fury greets Irish PM's confidence on united island

By John Murray Brown in Dublin

Pro-British unionists in Northern Ireland yesterday rushed to condemn a statement by Bertie Ahern, prime minister of the Republic of Ireland, that there was "an irresistible dynamic" towards a united Ireland.



Tony Blair with Orange Order leaders, including (third from right) John McGree, secretary of the Grand Orange Lodge of Ireland. Mr McGree said they wanted to complain about an 'apparently orchestrated campaign of demonisation of the Orange Institution'.

status would have to win the support of a majority of people in Northern Ireland. Jeffrey Donaldson, the dissident Ulster Unionist MP who voted against the deal, said Mr Ahern's comments confirmed "that the Irish government do not regard the Good Friday agreement as a political settlement but rather a staging post to the achievement of their objective which is a united Ireland".

The DUP, the biggest Protestant party in Northern Ireland, supported the peace agreement. Peter Robinson, deputy leader of the smaller Democratic Unionist party, said Mr Ahern had not seen "the full force of the will of unionist community". The DUP refused to join the talks which led to the April agreement.

The dispute provides an awkward backdrop to this week's visit by Tony Blair during which the UK prime minister will become the first British leader to address both houses of the Irish parliament.

Implementation of the April agreement has stalled over the issue of the handing over of paramilitary weapons. But evidence emerged yesterday that progress is being made in the contentious area of parades by the Protestant Orange Order. Mr Blair met a group of leading Orangemen in London yesterday, following a secret weekend meeting between Catholic and Protestant church leaders aimed at resolving the deadlock over the Orange Order's parade at Drumcree, which was re-routed away from a nearby Catholic neighbourhood.

LEGAL PROFESSION LAW SOCIETY HITS BACK AFTER POLICE REVEAL PROBE INTO SIX CITY OF LONDON FIRMS

Dirty-money investigators 'lawyer bashing'

By Robert Rice and John Mason

The Law Society yesterday accused the National Criminal Intelligence Service of "lawyer bashing" after it revealed it was investigating six City firms on suspicion of laundering drug cartel money.

"We're not saying no solicitor has ever been involved in money laundering but a minimal amount of dirty money goes through solicitors' firms. Banks and finance houses are the main targets, so to suggest it is a lawyer problem is foolish," the society said.

The NCIS confirmed that about six firms were being investigated for suspected money laundering on behalf of organised crime. But it admitted that prosecutions of lawyers for money laundering were "very, very rare".

The NCIS refused to identify the firms but said they were all well known within the City of London. Some were very big firms with only one or two individuals within them under suspicion, it said.

The investigations result from intelligence gathered by the NCIS and are being carried out by police forces and other agencies throughout south-east England. The City of London police are not involved. In August the NCIS accused lawyers of turning a blind eye to money laundering after revealing that only 236 of the 14,000 tip-offs it received in 1997 came from lawyers. This was down from 300 in 1996.

The top school abolition debate that is all about class

The question of the continued existence of selection in state education stirs parents' emotions. Deborah Hargreaves explains

Education, trumpeted by Tony Blair as one of his priorities when he became prime minister 18 months ago. He pledged to reduce class sizes, motivate teachers and improve standards. He struck a chord with many parents concerned about under-investment in schools and poor levels of attainment by children.

Now the government is embroiled in a dispute about its plans to help abolish some of Britain's oldest state schools, where many parents fight to send their children. Britain's remaining 166

grammar schools uphold high standards because of their selective nature. But opponents say they skim off academic pupils, leaving others with a sense of failure and handicapping non-selective comprehensive schools in the same areas. Critics of grammars want them to become comprehensive schools and admit all pupils from their neighbourhoods like most of the other 4,000 secondary schools.

The picture is further complicated because a minority of parents sends their children to independent schools. David Blunkett, chief education minister in the Labour government, has softened the party's approach to selective education. Labour had proposed to abolish all private schools or - more recently - remove their status as charities, which affords them tax advantages. But it has backed away from these ideas.

In opposition Mr Blunkett vehemently declared there would be no selection by exam or interview. But the Labour party was criticised before the last general election in a spat over the choice of school for Mr Blair's son. The prime minister decided to send him to a high-class comprehensive several miles from the family's home - not the closest school, as Labour advocates.

Labour now says it will not create any new selective schools and will give parents the chance to vote on retaining existing grammar schools. Ballots could be held next year although changes are unlikely to be made before September 2001. Anti-grammar campaigners welcomed the government's moves to pave the way for ballots, though the rules are so complicated it is difficult to predict their outcome. Two grammar schools in Bristol, in the west of England, have already signalled they will go comprehensive following campaigning by parents.

School rules

- Grammar schools: State schools for pupils aged 11 to 16 largely superseded since the 1960s by comprehensive schools. The essential difference between the two types of school is that grammar schools select pupils on the basis of ability while comprehensives are open to all.
- Comprehensive schools where most children aged 11 to 16 are educated include many former grammar schools. The Labour party started the comprehensive movement when it held power in the 1960s, pushing many schools to become comprehensive and scrapping the system of selection at age 11 as elitist.
- Independent schools are highly selective, receive no state grants and include some of the most famous names in Britain including Eton, Harrow and Winchester. There are independent schools for pupils of all ages, and those for teenagers are, confusingly, called public schools. Almost all parents of pupils at such schools pay fees. In the 1960s some grammar schools switched to independent status to avoid being turned into comprehensives.

Conservative government to enable less well-off pupils access to private schools. The assisted places scheme had cost around £140m a year, but that money will now be spent on reducing class sizes in state schools for children under 11. For a Labour party that has abandoned much of its leftwing tradition, the move to abolish grammar schools is a radical step.

ANTIQUES

Dealers double turnover

Figures released yesterday by the British Antique Dealers Association - which covers 400 leading dealers - suggested a 50 per cent increase in turnover, to £565m (\$949m), in the year ending June. The trade has an estimated turnover approaching £3bn when non-member dealers are taken into account. More than half the sales of BADA members were to overseas buyers, a third of them American.

More than half the dealers responding to a Bada survey reported higher sales in 1997-98, with picture dealers showing the greatest improvement.

The figures indicate the industry is made up of small businesses, with almost half Bada members having a turnover of less than £500,000 and only four with sales in excess of £20m. Antony Thornicroft, London

Newsquest, which reached the London stock market a year ago, will use software from Auction Universe, a US company, to conduct the auctions.

Jim Brown, executive chairman of Newsquest, said: "With the internet, we had originally set out to protect our business. What we've found is another business."

Newsquest, earlier this year announced plans to become a "virtual internet access provider" by changing readers for unlimited access to the internet via its local newspaper web sites. It expects to make profits of between £2m and £3m (\$3m) from the internet next year.

Regional newspapers' classified advertising revenues are threatened by the internet as more people search for jobs and goods online. Groups such as Newsquest have been exploring ways of exploiting the strength of their local print brands on the internet.

Internet auctions are successful businesses in the US and are beginning to take off in the UK. In September, eBay, one of the biggest US internet auction services, made its stock market debut and saw its shares soar more than 163 per cent in its first day of trading.

The group will hold trials in north-east England, allowing the buying and selling of small items online. It plans to roll out the venture across the UK in a few months.

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The world's top 500 survey. Who's number 1?

The FT 500. The definitive company listing published with the Financial Times on January 21 and 22 1999.

FINANCIAL TIMES
No FT, no comment.

صكنا من الامال

INTERVIEW JOHN KOSS, CHAIRMAN OF KOSS

Sound way to survive among the big boys

Inventors of the first stereo headphones have remained in business by evolving as technology advances, writes Nikki Tait

Can innovators survive as niche players when their industries are dominated by multinationals? Ask John Koss, co-inventor of the first stereo headphones.

Forty years ago this month, two hopeful US entrepreneurs walked into Milwaukee's Hotel Wisconsin where a high-fidelity show was taking place. Mr Koss, now in his late 60s but still chairman of the quoted company that bears his name, and Martin Lange, his partner, were trying to enter the rapidly evolving music equipment industry.

"So we thought, well, let's build a portable phonograph," recalls Mr Koss, who was playing trumpet with a jazz band at the time. "And then to be different, we thought we'd use a set of nice stereophones, so people could have private listening."

Turning this idea into reality was not easy. "What happened was that there were no music phones available. Everything was communications equipment left over from the second world war, headphones for switchboard operators and language equipment."

"It didn't have the balance you needed for listening to music. There was really no excitement - like listening to music on the telephone."

Undeterred, Mr Koss got his partner to install miniature hi-fi speakers in the type of headphones used by pilots. "The fact is, we were using a much bigger surface than these [current] little things."

"But that gave the base, the balance and the excitement."

ment, even with those first ones. And it turned out that everyone at the show was into the sound - except they didn't like the phonograph.

So just as the Koss stereo headphone was born, the Koss phonograph bit the dust. Today, its inventor looks stoic. "We were about 10 years ahead of our time," he says, philosophically. "Portable phonographs, boom-boxes and so on came on about the 1970s."

But if timing on the portable phonograph was lousy, the stereo headphones were delivered into a highly receptive market. As Mr Koss points out, music was changing rapidly in the 1960s and volumes were getting louder.

College students in particular lapped up the new novelty. "The kids at school, the only thing they wanted was a little school work and a lot of music."

"They had it in their dorms and they couldn't play it loud because they would rock the walls. So phones were the only way that they could hear it. Our timing was right."



But Mr Koss's fortunes changed when large competitors, notably Sony, muscled in on his act. The company, formed with family money to manufacture the headphones, had little patent protection.

It attempted to diversify, first into products like manual turntables and later into computer speakers.

Some hairy financial periods ensued and in 1984 Koss was forced into bankruptcy, re-emerging a year later.

But today, most of these peripheral activities have been pruned away, and Mr Koss's sons now run the business from the same modest Milwaukee headquarters that have housed the group for the majority of its corporate life.

And, in spite of the upheavals, Koss still leads the \$120m-a-year high-fidelity stereo headphone market in the US. Michael Koss, chief executive, claims that the company's tailored focus and the fact that it manufactures locally allows it to be responsive to retailers' demands.

That, in turn, helps to combat some of the competition's size advantage. Sales last year were \$40m, of which 87 per cent came from stereo headphones.

The younger Mr Koss also

sees some opportunity for expanding sales overseas, especially in Europe, where the lack of uniform distribution and specifications has made the market tough to crack for a relatively small company.

"Even something as simple as the euro may help," he says. "As the EU becomes one market, you're going to see more cross-border retailing and that's going to improve our position."

The Koss name, meanwhile, has been licensed to a couple of electronics companies, based in Hong Kong and Canada, who use it on a range of audio equipment, from speakers to car stereos. This has boosted profits by more than \$1m annually. The Koss share price has yo-yoed in recent years, but stands at double its mid-



His ambitions: diversification proved near-disastrous for Koss in the early days and resulted in a period of bankruptcy

'When we brought the phones to the first show, nobody had heard stereo, and it's very exciting when you hear it for the first time'

John Koss

FT GUIDE TO EMOTIONAL INTELLIGENCE

Empathy is better than wizardry

So-called 'soft' skills are not to be ignored. Rob Young identifies them and their impact on your job

There seem to be books and articles all over the place about emotional intelligence. What's it all about?

Emotional Intelligence (EQ) - as opposed to traditional intelligence (IQ) - describes a set of abilities, competences or so-called 'soft' skills about how people manage themselves and relationships with others.

There are five components, three of which relate to how you manage yourself:

- Self-awareness - recognising your own strengths and weaknesses and knowing how to compensate for them;
- Self-regulation - being able to keep under control emotions such as anger and impulses such as acting without thinking, and knowing when to be flexible and open to change;
- Motivation - having optimism and personal drive.

The remaining two components are concerned with handling other people:

- Empathy - skill in "reading" the emotions and motivations of other people, and being able to anticipate their needs;
- Social skill - an ability to build and manage relationships with clients, customers, colleagues, etc.

Is EQ just the latest management fad?

EQ seems to be in vogue at the moment, but only the term itself is new - the concepts have been around for decades.

There has been a growing realisation that getting ahead is no longer about being a technical wizard or

an intellectual genius. For example, it is commonly accepted that traditional IQ tests fail to predict job performance. Everyone can think of examples of boffins who never made it past middle management because they lacked the right personal qualities, even though they know the company's products better than anyone else.

Instead, it is people who are acknowledged to be charismatic, politically aware, open-minded and confident who sit at the tops of companies. EQ is simply a relatively recently coined label for this set of skills.

But I'm a manager, not a counsellor - who cares if I have empathy or not?

Tough business people almost always initially deride empathy as being unimportant to their roles. However, learning to sell more effectively to clients or customers requires an ability to read people's feelings more accurately to

You can only learn from your shortcomings if you are fully aware of them

know which buttons to push. An accurate understanding of your employees' needs and feelings will help you to find the best way of motivating them or to know how hard you can work them without breaking them.

Now you're talking. Can a higher EQ get me the promotion I want? It is difficult to imagine any aspect of a job which will not be affected by EQ. Within your own company, having a good sense of

MALCOLM HAS FANTASTIC EMOTIONAL INTELLIGENCE BUT CHOOSES NOT TO LET HIS EMOTIONS SHOW. OR HIS INTELLIGENCE, ACTUALLY



political awareness will help you to detect key power relationships and how to deal with conflict. Being self-aware and aware of others will help you to know when to forge ahead and when to take on board advice and give in. The list goes on.

A recent article in the Harvard Business Review by Daniel Goleman estimated that EQ is twice as important as technical skill or IQ in determining top-class performance.

But aren't these just common-sense social skills?

Yes, in the sense that most people understand the concepts because they are straightforward enough. However, most people cannot apply them as effectively as they might. It is akin to understanding the concept of playing a piano but being unable to produce a piece that is aesthetically satisfying.

In addition, many people have very little awareness of their own strengths and weaknesses.

For instance, there is typically a poor correlation between managers' ratings of their own skills and the ratings given by their teams. You can only learn from your shortcomings if you are fully aware of them.

Is EQ innate or learned?

Ah, the age-old question of whether leaders are born or made.

Emotional intelligence resides in a centre of the brain known as the limbic system, which is formed at birth - so a proportion of EQ will be determined in your infancy.

However, the limbic system responds remarkably well to feedback, training and extended practice. In short, EQ is a set of behaviours that can be learned.

So how do you improve your EQ?

Like any skill, EQ can be improved only with a great deal of time and determination. EQ training requires dedication because you may have to confront unpleasant realities - who finds it easy to admit that they are a poor team player or that they find it difficult to be as assertive as they need to be?

Objective feedback on your performance and blind spots from someone outside of your business is vital - employees and colleagues often feel unable to be as honest about your failings as you would like them to be.

Rob Young is a business psychologist in the London office of Nicholson McBride

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INSIDE TRACK

BUSINESS & THE LAW EXPORT SUBSIDIES

Geneva panel will rule on air dispute

Mark Clough examines the background to the row between Canada and Brazil

Canada has been in dispute with Brazil over export subsidies to Embraer, a Brazilian regional aircraft manufacturer, since 1996.

In July, following the failure of settlement consultations, a World Trade Organisation panel was set up to resolve the dispute.

This is the first time since the WTO Dispute Settlement Body was established in 1995 that a panel has been asked to interpret main provisions of the WTO Agreement on Subsidies and Countervailing Measures.

The scope of derogations and transitional rules available to developing countries which are relied on by Brazil are being put to the test.

The primary issue between the two countries is the alleged misuse by Brazil of its export aid programme, known as Proex. The interest rate subsidies granted to foreign buyers of Embraer aircraft have the effect of reducing the interest rate paid by purchasers by 3.5 per cent on loans covering periods of up to 15 years.

This amounts to a nominal reduction in the purchase

price of Embraer aircraft of \$4m or 20 per cent of the cost of Embraer's regional jet, the ERJ-145. Alternatively, the subsidy can be taken by foreign buyers at the outset as a one-off payment of \$2.5m.

Bombardier, the Canadian manufacturer, is the competitor most harmed by the Brazilian interest rate subsidies. However, the Proex programme also significantly affects European regional aircraft manufacturers ATR, Saab and BAe.

For Canada to succeed in its complaint, the Proex interest rate equalisation scheme applied to regional aircraft must be shown to be a subsidy as defined by article 1 of the WTO agreement and to be paid in connection with exports contrary to article 3.1.

To satisfy the article 1 subsidy test, there must be a "financial contribution by a government" which has conferred a "benefit", and to be prohibited by article 3.1 the subsidy must be contingent on export performance.

Brazil, which is about to receive a \$41bn rescue package from international

donors, has not surprisingly given notice of its intention to rely on the defence provided for developing country members by article 27 of the subsidies agreement.

Article 27.2 requires Brazil to establish that it is a qualifying developing country WTO member; and any export subsidies granted are kept to a minimum in accordance with article 27.4.

Provided that Brazil can satisfy the three conditions in article 27.4, the Proex programme might benefit from temporary exemption from the general prohibition of export subsidies.

The three conditions concern the phasing out of export subsidies within an eight-year period from the entry into force of the WTO agreement (which expires on December 31, 2002); a standstill obligation not to increase the level of export subsidies; and an obligation to phase out export subsidies in less than eight years when the use of such subsidies is inconsistent with development needs.

Brazil is unlikely to pass the first test, having extended the Proex financing period from 10 to 15 years.

In the case of the obliga-



Object of dispute: the ERJ-145, the regional jet built by Embraer, the Brazilian manufacturer

tion not to expand the level of the subsidies, the available evidence again appears to indicate that Brazil has expanded the scope and availability of Proex subsidies.

It has increased the size of loans qualifying for Proex subsidies from 85 per cent of the purchase price of the aircraft to 100 per cent, waived rules requiring a certain percentage of the content of the aircraft to be Brazilian and increased the period of loans for which the subsidy is available from 10 to 15 years.

It has also increased the term for which Proex subsidies are available for spare parts and engines for regional aircraft.

The third condition is likely to be the most contentious, touching as it does on the issue of a country's development needs.

Embraer claims that it is penalised by high domestic

interest rates and needs the export subsidies to compete. The WTO panel will have to decide whether these payments, which are made mainly to foreign regional airlines and their banks, allowing them to reduce their financing costs to below international levels, are in line with Brazil's development needs.

Brazil will need to justify large payments to foreign institutions that result in a substantial net outflow of funds. While the domestic content of Embraer aircraft is below 30 per cent, the Proex programme finances up to 100 per cent of the purchase price of Brazilian regional aircraft.

The \$200m annual cost to the Brazilian budget to cover Proex payments to foreign purchasers of Embraer aircraft at a time of financial crisis might be considered inconsistent with

Brazil's development needs.

A further issue for the panel is the relationship between financial rescue aid packages provided under IMF and World Bank rules and the uses of such aid to fund a budget deficit arising from export subsidies.

As this is the first significant subsidies case to come before the dispute settlement body in Geneva, the panel's decision is likely to be important for the interpretation and application of the subsidies agreement by other WTO members.

The ruling of the panel provides an opportunity for a realistic appraisal, consistent with the General Agreement on Tariffs and Trade practice that exceptions to general Gatt rules must be construed narrowly.

The author is a partner of Ashurst Morris Crisp, the City law firm.

Wilde Sapte tops project finance league tables

Wilde Sapte, the City law firm, has emerged at the top of the UK project finance league tables after closing deals of a greater value during 1997-98 than any of its rivals.

The league tables published in the Project Finance Book of Lists 1998-99 show that the firm closed UK projects to a value of \$6.7bn. Second was Norton Rose which closed deals valued at \$2.95bn; in third place was Clifford Chance, with closed deals valued at \$2.9bn.

Among the deals closed by Wilde Sapte in 1997-98 were the Norfolk & Norwich Hospital, Oceanic Air Traffic Control and the Armed Forces Personnel Administration Agency. Wilde Sapte was also placed second for western European projects.

Lex Mundi move

Morrison & Foerster, the San Francisco-based international law firm, has become the latest well-known US law firm after Steptoe & Johnson in Washington DC and Baker & Botts in Texas to join the Lex Mundi group of associated law firms. Lex Mundi has 146 member firms with 370 offices in 83 countries worldwide representing approximately 11,500 lawyers.

Spanish task

Clifford Chance has been retained to advise on Europe's largest securitisation - the \$11bn securitisation of the stranded costs in the Spanish electricity sector. Stranded costs are the costs deemed to have been wasted following the break-up of the Spanish electricity market. The UK international law firm is advising all three financial arrangers of the deal, Morgan Stanley, Banco Bilbao Vizcaya and Banco

Central Hispano. No other law firm is involved so far. The transaction is being conducted under the new securitisation law issued in Spain earlier this year. There will be both a domestic and international issue.

Merger outlook

Consolidation among UK law firms is set to continue, according to research by accountants Smith & Williamson. Two-thirds of 80 solicitors' firms interviewed by the accountants said they expected the level of merger activity to increase over the next year. More than 70 per cent said they had approached, or been approached by, another firm with a view to a possible merger in the past two years.

Repealing work

Following recommendations by the Law Commission, the government's law reform advisory body, the 1998 Statute Law (Repeals) Act has repealed almost 400 statutory measures including 180 whole acts of parliament. Among the outdated statutes repealed are the Victorian acts passed to prevent the slave trade, two emergency acts passed in 1797 as a result of the mutinies at Spithead and the Nore, three Elizabethan acts imposing restrictions on the powers of the clergy to dispose of ecclesiastical property, five university acts giving graduates from newer universities the same employment privileges as Oxbridge or London graduates, and nine title acts passed to administer tithes, tithes rent charges and corn rents.

Two re-elected

John Heller and Christopher Jones have been re-elected as senior partner and managing partner respectively of Hammond Suddards, the UK national law firm. They will serve a further three-year term commencing in May.



European court

The European Court of Justice has clarified the circumstances in which an undertaking is deemed to be sufficiently individually concerned by a European Commission decision to bring an action to have it annulled.

The judgment arose out of a dispute between Givenchy, the French perfume house, and Kruidvat, a Belgian shop chain. Kruidvat sold fine fragrances, including Givenchy perfume, obtained on the parallel market.

In 1990, Givenchy sought

Givenchy creates a special case

clearance from the Commission for a selective distribution network for its products. The Commission published a notice indicating compatibility with European competition rules.

Comments received in response included one from Kruidvat's trade association. In July 1992, the Commission adopted a decision declaring the competition rules did not apply to Givenchy's selective distribution system.

Givenchy's exclusive agent in Belgium sought an order requiring Kruidvat to stop selling Givenchy products on

the grounds that it was not part of the selective distribution network.

Kruidvat brought an action for the annulment of the Commission's decision in the European Court of First Instance. The Court declared it inadmissible. Kruidvat had no standing to challenge an individual decision granting exemption as it was not "individually concerned".

On appeal, the Court upheld the CFI's finding that the link between the participation of the trade association in the administrative proceedings and the individ-

ual situation of Kruidvat was not sufficient for it to be individually distinguished.

The extension of the right to bring proceedings to an association defending the interests of its members could offer procedural advantages. However, participation by such associations in the administrative procedure could not relieve their members of the need to establish a link between their individual situation and the association's action.

Further, the existence of linked civil proceedings before a national court was

not sufficient for a direct action against a Commission decision to be admissible.

The legality of an administrative measure relied on by one of the parties to such proceedings might arise as an issue preliminary to the settling of that dispute. However, from this it could not be inferred that the other party had standing to dispute the legality of that measure by means of a direct action before the CFI.

The Court went on to hold that there was no analogy between the position of the complainant and that of

undertakings which were "parties concerned" with regard to Commission decisions on state aid.

The Court justified a legal interest in bringing proceedings in those cases by the absence of other procedural guarantees. In the present case, there had been an invitation to submit observations.

The Court further held that Kruidvat was not distinguished from other operators outside the Givenchy distribution network.

C-70/97: *Kruidvat v Commission*, ECJ FG, November 17 1998.

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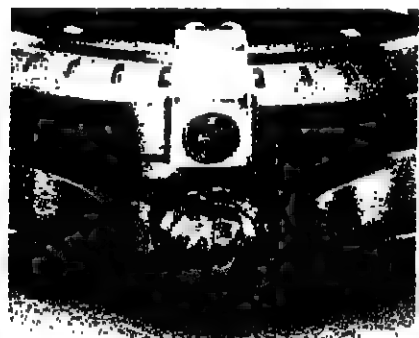
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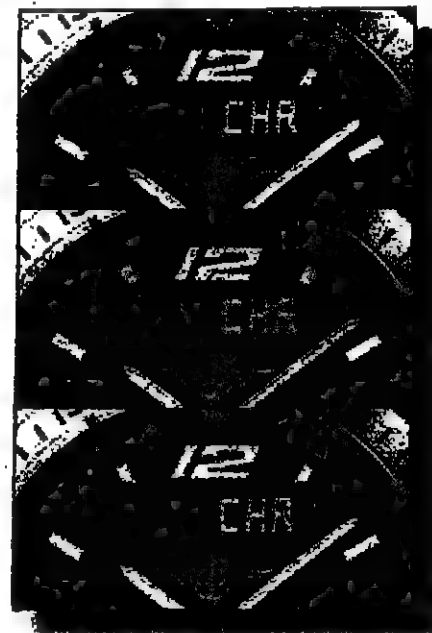


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THE ARTS



Peter Greenaway in front of 'Stallescapes: Verticals', 1988. His retrospective in Manchester is a succession of ensembles after the general manner of the day, a kind of history of avant-garde fashion

Confessions of a non-draughtsman

The filmmaker Peter Greenaway has had quite a few problems mapping out his artistic career, writes William Packer

Peter Greenaway has made some of the most remarkable films of our time, dense with scholarly hint and art-historical reference, dead-pan jokes for us to smile at in self-congratulatory recognition. He has also been the curator of some memorable exhibitions which, similarly, celebrate that polymathic curiosity, rich in interdisciplinary proposition and possibility, endlessly justified by list and category.

And he is also a painter. We remember the artist-hero of *The Draughtsman's Contract*, the film by which he made his name as a director - and it was Greenaway himself who made the drawings that appeared upon the screen. No matter that they were stilted, inept, and inappropriate to the period, it was clearly important to him that they should be his own.

In 1980, at the age of 38, he turned down Cambridge University in favour of the Walthamstow School of Art. But the disciplines of anatomy, perspective and the life-room seem not to have suited him. Paul Mella, his present apologist, writes in the catalogue that "from the beginning, Greenaway had little affinity with the School's conception of art practice: 'I was not interested in observational work or being a dispassionate documenter, or even a passionate one.'"

ing and painting are never easy. Perhaps he was no good at them. "Art schools", he complains, "are so good at breaking your confidence." Perhaps he wished he had gone to Cambridge after all.

The point is that clever people often aspire to the life and condition of the artist and, lacking obvious technical facility, persuade themselves that the fault lies elsewhere.

Greenaway took himself off to work instead with grids and charts, diagrams and maps. Anything but draw. He set out at night to bury ball-bearings at selected points of intersection on the Ordnance Survey grid, but gave up on discovering that his actual "points of land" were usually occupied by trees, buildings or some other obstacle. What had he lost?

In 1976 he made 32 maps, "the result of an absurdist search for a map in every available surface: the hides of piebald cows; a bramble leaf mined by a gall-wasp grub; a piece of used sandpaper, the cat scratches on a kitchen door..." They raise a number of issues, such as: what are maps; what is their function; what is the difference between a map and a picture; how does one "read" a map; what is the relationship of the map to the landscape it represents? Good questions, all of them, but the mere asking and representation of them, fascinating as may be, does not make the asker an artist.

For Greenaway, the great moment of liberation from those old art-school disciplines came when, while still a student, he discovered the work of the young R.B. Kitaj, with its forced and contradictory perspectives, its mannered, collage-like imagery drawn upon a variety of sources, its elegantly sketchy handling, and its wilfully recondite and literary references. Collage as such, too, came as a great personal discovery, "allowing him 'the production of a vivid, flat surface - necessary at this time if one's work was to count as, or at least look, modern.'"

It is that "at least look" that is the Greenaway give-away.

None of this would matter if, as with Kitaj himself - or Paolozzi, Richard Long, Tom Phillips, Richard Hamilton even, or Marcel Duchamp - the actual work had a sustained and credible critical engagement and development within itself. But what we have in this retrospective, now at the Cornerhouse in Manchester, is a succession of exercises after the general manner of the day, a kind of potted history of avant-garde fashion, sustained by what Mella would call a profound and ironical scepticism, but which in reality is only wordy and profoundly unironical self-justification.

There is no question of the work being allowed to speak for itself, and clearly it cannot. But in his heart, Greenaway seems to have recognised as much all along. In 1965 he joined the film unit of the Central Office of Information, and there found his true self. His films, for all their maddening obscurities and pretensions, can and do speak for themselves on their own terms, and so, too, his occasional curated exhibitions. These represent his lasting achievement. He at least kept up the day job.

Peter Greenaway - Artworks 83-88: Cornerhouse, Manchester M1; sponsored by Manchester Airport.

MUSIC TILSON THOMAS / STRAVINSKY

Celebrations of spring

Michael Tilson Thomas has been conducting the London Symphony Orchestra in a trio of Stravinsky concerts - dedicated to his "stage works", though some of those programmed are rarely staged, and the 1933 *Ode* is a pure concert piece. In fact the series just provided an excuse to fill the Barbican Hall for one of the ever-popular ballets each night (*Petroushka*, *Rite of Spring*), while

completing the programmes with less familiar works. And why not? I heard the last concert, which ingeniously matched two very different "spring" celebrations: the *Rite*, of course, and *Petroushka*, the balletic "melodrama" Stravinsky composed in 1934 for Ida Rubinstein to mime and declaim. That was a collaboration with Andre Gide, and not a happy one. Stravinsky detested Gide's verses, and

Gide was appalled by the way Stravinsky set them, rudely ignoring the prosody.

Yet this somewhat misbegotten work has its fragile, ethereal charms. It tracks *Petroushka's* descent into Hades, and thence upwards, after she negotiates a deal with Pluto that allows her the spring and summer of each year to revisit Earth. The music - with adult and children's choruses, and

a minor role for the priest Eumolpus - recalls Stravinsky's earlier *Apollon*, but softer, lighter, without urgency.

The Tilson Thomas performance was well and thoughtfully prepared. But I thought the London Symphony Chorus too numerous, the choral weight excessive for the music; surely Stravinsky envisaged a smaller group? The New London Children's Choir was fine. Stephanie Cosserrat declaimed *Petroushka* gracefully and plainly; Eumolpus was Stuart Neill, a big American warner with a big sound and adequate French, but no sense of theatrical narrative.

La Sacre du printemps made a forceful contrast, and scored a great success with the audience. Tilson Thomas and his LSO players excelled particularly in *piano* and *mezzo-forte*, where they brought many wonderful but often neglected details to precise life. When the score roared and howled, the conductor drove it very fast indeed; that made an exciting ride, but stately and hi-tech-mechanical. The earthy stamp of primitive human feet was hardly felt, and I missed it.

David Murray

Back to the sad silly Seventies

THEATRE ROBERT HANKS

Shang-a-Lang
Rush Theatre, London W12

The glut of 1970s nostalgia afflicting us right now needs explaining. The main reason must be simple chronology - for the writers and directors who are now coming to the fore, the 1970s were formative years, and much the same must apply to a large section of the audience, so that writing about the decade makes commercial sense too.

But it may be, as well, that there are features peculiar to the Seventies pop scene that make it specially tempting for writers - the silliness of the music, the ludicrous clothes (platforms, hot pants), the absolute absence of any of the spiritual and political yearnings (or pretensions, if you would rather) that marked the Sixties.

The Seventies was a decade without baggage: the Sixties were all about protest, Vietnam, sexual liberation; the Eighties were Thatcher, the miner's strike and a Square Mile flush with cash and ambition. What does the Seventies mean? The meaninglessness of that low, dishonest decade seems to lie at the heart of Catherine Johnson's *Shang-a-Lang*, a play that combines the two genres of "Seventies Nostalgia" and "Girls' Night Out".

they all find out things about one another and their shared past that they would rather not have known.

The characters and their situation verge on stereotypes, and in some ways it seems an oddly staid play for the Bush. What distinguishes it is a streak of ruthlessness. You are left afterwards with a bleak sense of how all these women's pleasures - drink, sex, nostalgia - are only escapes from unhappiness. For Pauline, her teenybopper crush on Woody, one of the Rollers, was the emotional highlight of her life: what could be

Catherine Johnson's play combines the two genres of 'Seventies Nostalgia' and 'Girls' Night Out'

sadder than that? The mood is summed up in an exchange between the two musicians.

"Life's too short," says Carl, the cocky young one, fed up with his friend's whingeing. "No it ain't, it's too fucking long," replies the older Vince.

Amid the misery, there are some very funny moments: Pauline coming out of a drunken stupor nestled between the legs of a giant fibre-glass Teletubby; Carl and Vince's appearance as soul musicians, complete with boot polish and Robinson's Golly afro-wigs. And in Mike Bradwell's production, all the performances are good, with Joanne Pearce's melancholic, eager-to-please housewife outstanding. It is a play worth seeing; but the nagging sadness of it means you are unlikely to cling to fond, nostalgic memories.



At the Bush's Glam revival weekend: One McCracken, Nicola Redmond and Joanne Pearce

INTERNATIONAL

Arts Guide

ADELAIDE

OPERA
State Opera of South Australia
The Ring: first cycle of Wagner's opera. Staged by Pierre Strosser and conducted by Jeffrey Tate, this performance of *The Ring* is the first in Australia since 1913; Nov 24

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Rake's Progress: by Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 26

BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-93-329 1808
www.fcnm.fundam.es
Magritte: an exhibition celebrating the centenary of René Magritte's birth. It contains

over 90 paintings and 50 photographs by the Belgian Surrealist, which are grouped into 5 recurrent themes from his work; to Feb 7

CHICAGO

CONCERT
Orchestra Hall
Tel: 1-312-234-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Riccardo Chailly in works by Mahler and Mendelssohn. With mezzo-soprano Petra Lang and baritone Simon Keenlyside; Nov 24

OPERA

Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Ariadne auf Naxos: by R. Strauss. New production by John Cox, conducted by Robert Spano. Cast includes Deborah Voigt and Susan Graham; Nov 24

COLOGNE

OPERA
Oper der Stadt
Tel: 221-221 8400
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Will and staged by David Mouchtar-Samora; Nov 27

HELSINKI

DANCE

FINNISH NATIONAL BALLET

Tel: 358-9-403 021
Giselle: staging by Sylvie Guillem. With sets and costumes by Ramon B Ivars. Conducted by David Gifford; Nov 24, 25, 26

OPERA

Finland National Opera
Tel: 358-9-403 021
Anna Bolena: by Donizetti. Conducted by Maurizio Barbacini in a new staging by Jussi Tapola, with designs by Anna Kontsic; Nov 27

HUDDERSFIELD

CONCERTS
Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
● Elliott Carter 90th Birthday Tribute: works by Carter, including the European premiere of his Piano Quintet, performed by the Arditi String Quartet and pianist Ursula Oppens; St. Paul's Hall; Nov 27
● Northern Sinfonia: conducted by Thierry Fischer in Simon Holt's Triptych, and Diana Burrell's Clarinet Concerto. With cello soloist Zoe Martlew and clarinet soloist Robert Plante; Nov 26

DANCE

Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
Jonathan Burrows Group: three dancers perform new work drawing on music and ideas by Matteo Fargion, Tom Johnson and Kevin Volans. Lighting by Michael Hulls; Lawrence Batley

THEATRE; Nov 24

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Sir Colin Davis conducts a series of works by Elgar; Nov 25
Royal Festival Hall
Tel: 44-171-960 4242
Estonian Philharmonic Chamber Choir: with the Tallinn Chamber Orchestra. Tõnu Kaljuste conducts work by Estonian composers Erkki-Sven Tüür and Arvo Pärt; Nov 26

OPERA

English National Opera, London Coliseum
Tel: 44-171-632 8300
Boris Godunov: by Mussorgsky. Conducted by Paul Daniel in a new staging by Francesca Zambello. John Tomlinson sings the title role; Nov 24, 27

THEATRE

National Theatre
Tel: 44-171-928 2252
Betrayal: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Calf and Imogen Stubbs; Lyttelton Theatre; Nov 24

MILAN

EXHIBITION
Pinacoteca di Brera
La Dama con l'Erminellino: Leonardo da Vinci's 1488 portrait of the young mistress of Ludovico il Moro travels to Italy

for the first time since 1800, when it was purchased by the Polish Prince Czartoryski; to Dec 13

MUNICH

CONCERTS
Philharmonie Gastalg
Tel: 49-89-5481 8181
● Danish National Radio Symphony Orchestra: conducted by Gennadi Rozhdestvenskiy in works by Nielsen, Shostakovich, Rachmaninov and Stravinsky. With violin soloist Viktoria Mullova and pianist Viktoria Posnikova; Nov 26
● Munich Philharmonic Orchestra: conducted by Zubin Mehta in works by Liszt, Beethoven and Berlioz. With piano soloist Radu Lupu; Nov 24

NAGOYA

EXHIBITION
Matsukagaya Art Museum
The Camen Thyssen-Bornemisza Collection: touring show of 94 paintings, ranging from the 18th century to the early 20th. Highlights include 19th century Spanish works and works by American painters. Also on display are recently acquired works by DeLaney and Braque; to Dec 8

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org

La Bohème: by Puccini. With Julius Rudel conducting and a cast which includes Francesca Pedaci, Gwynne Geyer and Vladimir Grishko; Nov 25

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Frans Brüggen in works by Schumann and Mendelssohn. With violin soloist Thomas Zehetmair; Nov 25, 26

OPERA

Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Merry Widow: by Franz Lehár. Conducted by Amin Jordan and with a cast including Frederica von Stade and Maken Hagedorn; Nov 25, 27

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 8000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Haydn, Shostakovich and Brahms. With piano soloist Vladimir Feltsman; Nov 25, 27, Nov 28

OPERA

San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
Norma: by Bellini. Conducted by

Patrick Summers in a staging by Andrew Sinclair. The title role is sung by Carol Vaness; Nov 24, Nov 26

TOKYO

CONCERTS
Sunrise Hall
Tel: 81-3-3584 9999
● Japan Shisei Symphony Orchestra: conducted by Ondrej Lenard in works by Mahler; Nov 24
● Russian National Orchestra: conducted by Mikhail Pletnev in works by Tchaikovsky and Stravinsky; Nov 25

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22:00: *World Business Today Update*

● **Business/Market Reports**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from UFFE as the London market opens.

COMMENT & ANALYSIS



PETER MARTIN

A long goodbye

The heart of banking – turning short-term deposits into long-term loans – is coming to an end, but banks will not go quietly

Banks have no future. Their economic purpose is redundant. To survive, they must find another role: adviser, speculator, fund manager.

This is the underlying truth behind such transactions as Deutsche Bank's mooted acquisition of Bankers Trust, or Citibank's merger with Travelers. It is a dangerous truth, for in seeking to avoid it, bankers assume ever greater risks.

Since the first medieval goldsmith diversified beyond the strong-room business, banks have had a single role: "maturity transformation", the turning of short-term deposits into long-term loans. Whether explicitly long-term, as in German corporate lending, or notionally short-term, as in British overdrafts, their assets have been effectively hostages to the future. Their liabilities, by contrast, have been immediately payable.

It is this inherent mismatch that has provided banks with their *raison d'être* and their profits. Its intrinsic riskiness has led to the creation of central banks, regulators and leaders of last resort.

It remains risky. But it is increasingly redundant. Electronic technology and financial innovation are creating a world in which maturity transformation is unnecessary.

Economic actors – individuals, households, companies – will no longer require this service. Their portfolios of assets and liabilities will be broadly matched in maturity terms: short-term assets will match short-term liabilities, longer-term assets will match longer-term liabilities.

This is already visible, particularly in the US, individuals' needs for long-term assets (to provide

retirement income) are now matched by their purchase of equities. Their shorter-term needs for credit to finance the purchase of consumer durables are matched by loans of a maturity that reflect the useful life of the product, or by credit-card loans with a comparable life.

Some of their cash balances, it is true, are still held in banks. But, increasingly, household cash not needed for immediate use is placed in money-market funds – and thus recycled into short-term lending to companies. Not much scope for maturity transformation here.

Similarly, US companies raise equity and issue bonds and commercial paper. Or they perform maturity transformation themselves, bundling together short-term receivables and selling them as longer-term securitised debt.

This is usually described as "disintermediation". Banks are not needed. It is said, because companies

lend directly to one another, cutting out the middleman. That is true. But it is only part of the story.

More important is that, during this process, maturity transformation drops out. Sometimes that requires innovation, as in the securitisation process. Sometimes it requires technology, as in the gradual elimination of "float" from the settlement of financial bargains. Always it requires a degree of sophistication on the part of customers that was not present before.

The threat to banks is profound. They will still retain a role in running the payments mechanism – but only because of regulatory favouritism. Without such implicit protection, computer service companies would be able to run the system much more efficiently.

Banks will still be able to sell packaged financial products to mass market customers. They will be able to earn a fee for facilitating the transactions that have

replaced them – for example as underwriters of corporate bonds or arrangers of securitised debt. But they have few special advantages in either role.

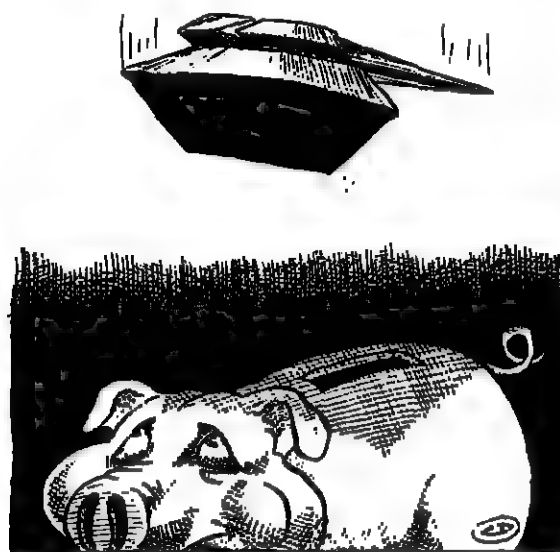
They will still earn a crust by filling the remaining maturity transformation gaps, for example on those occasions when companies wish to raise money (for a takeover, perhaps) at very short notice. At risky moments in the cycle, money will flow into their vaults from risk-averse investors, as happened this autumn. But otherwise, their traditional role is disappearing. With it should go the elaborate regulatory structure erected to contain the risks of maturity transformation. Central bankers and banking supervisors should be actively preparing for their own demise.

Alas, human nature does not work like that. Banks have a powerful institutional impetus to survive, so do regulators. The risk is that they collude to protect their own existence, leading the banks to speculate on ever more risky transactions within the shelter of the privileges given them because of their past role.

Some of these transactions will be clearly speculative, as in their proprietary trading activities. Others will look like conventional loans – such as those to south-east Asia or Long-Term Capital Management – but will actually be hidden position-taking. A banking structure created to handle a redundant type of asset-liability mismatch – maturity transformation – will seek out other mismatches. Central bankers' traditional "lender of last resort" doctrine, devised to cope with the liquidity risks of maturity transformation, will find itself stretched to breaking point. Shareholders who still think of banking in historic terms will find themselves repeatedly blindsided by the new risks bankers desperately rush to assume. Traditional banking is dying. But the grieving throng around the deathbed face a long and expensive vigil.

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LETTERS TO THE EDITOR

Currency regime proposal is unrealistic

From Mr Ravi Bulchandani
Sir, in his Personal View ("How to target exchange rates", November 20) C. Fred Bergsten summarised the yearning in some quarters for more stable exchange rates globally. In doing so, he ignored the main lesson to be learnt from attempts to fix exchange rates in a world of free capital flows. There are few viable alternatives between completely fixed exchange rates – or one money as in European economic and monetary union – and freely floating exchange rates.

Agreement on exchange rate target zones implies that countries are willing to give up a measure of monetary policy sovereignty for the supposed common good of more stable exchange rates. To be consistent with the lessons of experience, Mr Bergsten must be arguing for the re-establishment of a commonly agreed global monetary standard of the

kind that has long been advocated by Professor Ronald McKinnon of Stanford University.

The level of co-operation necessary for such a regime would be hard to achieve. The dispute over global banana trade is hardly calculated to make one optimistic about the present state of international policy co-ordination. I find it hard to believe that, if faced with a serious recession, the US would be able to resist deprecating its way to prosperity, thus making a mockery of any attempts at target zones. If, for example, the dollar were testing the bottom end of its agreed ranges because of a widespread perception in markets that US growth was faltering, the required policy response from the US would be higher interest rates – hardly a credible or sustainable policy response. And I seem to recall that Mr Bergsten has often argued for a much

lower dollar as a way of addressing the current account deficit in the US.

Part of the motivation for Mr Bergsten's concern is the fear that the euro will be born too strong. But it is not as if the European Central Bank lacks the means to address this – a dramatic cut in European interest rates would nip any incipient tendency to excessive euro appreciation in the bud. One aspect of running monetary policy for a putative global reserve currency is straightforward – if there is excessive global portfolio demand for your currency and if there is little danger of inflation, interest rates should be cut. My advice to Wim Duisenberg (president of the ECB) cut early and cut often and the value of the euro will look after itself.

Ravi Bulchandani,
head of currency strategy,
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London, E14 4QA, UK

Democracy in the east and west

From Ms Teresa Wyzomierski

Sir, in an interesting counterpoint to US vice-president Al Gore's controversial Apec speech calling for increased democratisation as a way out of Asia's economic woes, Singapore elder statesman Lee Kuan Yew repeated his tired observation that democratic reforms were not a panacea ("Don't Expect Too Much" November 17).

Both men are right, because they are not talking about the same thing. When Al Gore or any western leader mentions "democracy", he is citing a political framework grounded in a system of checks and balances. When Lee Kuan Yew disparagingly talks about democracy, he is referring to some Asian variant that fails to combine a popular electoral process with an authoritarian overlay.

Western-style democracy presumes that corruption is humanity's universally shared bane, which can be controlled by the impersonal and self-regulating mechanism of a multiparty government system. Lee Kuan Yew's paternalistic formulation fuels the mistaken impression that Asians are somehow more inherently corrupt than westerners and in need of guidance from above.

Western-style democracy may not be a panacea for economic malaise but, it's not so bad when you consider the alternatives. At the very least, a system of checks and balances would discourage the west from adopting Lee Kuan Yew's condescending prescription of not expecting too much from the east.

Teresa Wyzomierski,
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ECB is not entirely 'a law unto itself'

From Mr Constantine Vayenas

Sir, Professor Paul de Grauwe ("Law unto itself", November 12) says the political independence of the European Central Bank has been based on a "primitive political theory" which assumes that politicians are always trying to get their way with the central bank (presumably low interest rates, especially in the run-up to elections).

It may be "primitive", but is that not the reality? No one less than Alan Blinder, a former vice-chairman of the Federal Reserve Board, showed how game theory can be used to illustrate the relationship between the Fed and politicians. The object is for one player to force the other to make the unpleasant decisions (is the Fed tries to get the politicians to

restrict government spending; the politicians pressure the Fed for lower interest rates).

Prof de Grauwe refers to US politicians as "stakeholders" in the Fed. Perhaps they are in good times, but they did not rush to the Fed's defence in late 1990/early 1991 when the US was in recession and inflation peaked at more than 6 per cent. Also, members of the Fed are shielded from these short-term stakeholders by serving long terms: 14 years for members of the board, and until retirement age for presidents of the Federal Reserve Banks.

The ECB is accountable to holders of the euro, to whom it promises that the domestic purchasing power of the currency will fall by less than 2 per cent a year, on average. The bank is also accountable

to the governments of the member states.

If the ECB were to get it horribly wrong, it would be easy to obtain a unanimous decision from member countries to censure the bank. But it seems unlikely that the ECB would wish to manoeuvre itself into such an humiliating position.

Perhaps therein lies a reasonable guarantee for monetary stability in the eurozone. In the meantime, politicians should focus less on the ECB and worry more about why the European Union still has nearly 17m unemployed. At least the ECB cannot yet be blamed for that.

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Death in a stairwell

After the assassination of a prominent reformer, John Thornhill and Arkady Ostrovsky consider the strange death – or murder – of market liberalism in Russia

The killers who gunned down Galina Starovoitova in the stairwell of her St Petersburg home not only eliminated one of Russia's most prominent reformist members of parliament but also fired a chilling shot at the country's nominally democratic political system.

"Starovoitova was one of the most courageous and uncorrupted people on the political scene," said one observer. "My feeling is that this was a qualitatively different type of killing to all those we have seen before. This was clearly a political murder."

While there have been many murders of public figures in Russia – including several members of parliament – it is hard to think of any in which the main motive had nothing to do with business dealings. In that sense, this looks to be post-communist Russia's first purely political assassination.

It has emphasised just how much political tensions have been ratcheted upwards recently in a country still struggling with the principles and practices of a democratic society. Starovoitova's parliamentary colleagues were quick to hail her as an uncompromising democrat who spoke out against abuses of power wherever she found them. The formidable, matronly Starovoitova was one of the most prominent opponents of the attempted coup by Communist hardliners in August 1991. After working closely with Boris Yeltsin in his early years as president, she turned against him over the conduct of the Chechen war. In recent weeks, she was an aggressive critic of the anti-Semitic tirades of General Albert Makashov, a Communist MP, and campaigned for his censure in parliament. (He broke the law by publicly saying "the yids should be jailed" and the Communist party at first refused to disown him).

The St Petersburg police have yet to find Starovoitova's killers, and judging by the record of Russia's criminal investigators they are unlikely to do so soon. Nonetheless, Starovoitova's reformist colleagues have



Mourners outside the flats where Starovoitova was killed. Reuters

been quick to pin the blame on the worsening climate of political intolerance in the country. Since the financial crash, public outbursts by extremists have become more common.

Anastoly Chubais, a former minister and leading reformer, discerns a silver lining, suggesting that Starovoitova's murder could work as a catalyst to unify Russia's democratic parties. "I am really convinced that more than ever before the country needs a powerful, aggressive, result-oriented and tough rightwing centre," he said, arguing its hour had finally come.

However, it may well be the tragedy of Russia's liberals that they have arrived at this realisation too late. In the past few months, the country's political centre of gravity appears to have shifted decisively leftwards, finding its embodiment in the person of Yevgeny Primakov, the prime minister, who has been fiercely critical of the "young liberal reformers" and "so-called democrats".

In the minds of many voters, the murder of Starovoitova is a personal but not a political tragedy: to them, Russia's liberal leaders have hopelessly discredited themselves by their association

with Mr Yeltsin's failed administration. Few voters seem to care much about the death of market liberalism in Russia.

In recent interviews with the Financial Times, Yegor Gaidar and Sergei Kiriyenko, two former reformist prime ministers, both concluded that Russia's liberals should have devoted more efforts to building a political constituency for reform. With the benefit of hindsight, they should have tried to mobilise support from the emerging middle classes they were striving to create, but who remained resolutely apolitical while they were making their money.

Mr Kiriyenko, whose reform drive this year crumbled in the face of parliamentary opposition and crashing world markets, said the reformers had underestimated the amount of time necessary to change the public consciousness after 75 years of communism.

"We were too quick to assume that society understood the price it needed to pay for these reforms and was ready to pay it," he said. "As a matter of fact, people never gave the government the moral backing for market reforms. The only reforms we had were done secretly, as if

hiding from the people." However, Mr Gaidar, who launched Russia's market reforms in 1992, said it would be premature for Russia's liberals to abandon hope, arguing there were millions of voters – amounting to more than one-fifth of the electorate – who rejected communism and favoured individual responsibility and market reforms.

"I do not think that this part of the electorate will disappear. The possibility to create a political force with comparable strength to the Communists... really does exist," he said. "It seems as though the democrats in Russia are unified only in situations of extreme danger. And now it is clear there are such dangers."

Mr Kiriyenko suggested the crisis had begun to politicise the middle classes and he highlighted the extent to which liberal economic thinking has taken root in Russia. He pointed to an opinion poll showing that 46 per cent of Russians were opposed to printing money even if it was used to pay their salaries.

Both Mr Kiriyenko and Mr Gaidar argued that Mr Primakov's left-leaning government would be forced to revert to tougher liberal economic policies next year when its experiments with quasi-Soviet solutions resulted in high inflation and worsened Russia's economic plight.

The question is what happens then. The reformers clearly hope the country will turn back to them. But Sergei Markov, a politics professor at Moscow state university, believes that even if Mr Primakov's government collapses, it is unlikely to rebound to the liberals' political advantage.

"The liberals can only criticise," says Mr Markov. "They cannot consolidate their position. If the moderate leftists who are currently in the government fall, they will be followed by nationalists, not liberals."

If he is right, the outlook is grim. It was once said that the "Tsarist system was 'autocracy tempered by assassination'. Now it is looking more like assassination tempting the country towards autocracy."

THIRD QUARTER 1998 FINANCIAL RESULTS

(Reviewed by Ernst & Young, Bahrain)

CONSOLIDATED BALANCE SHEET

(As at 30 Sept 1998)

	(US\$ million)	30 Sept 98	30 Sept 97
ASSETS			
Liquid funds		309	235
Marketable securities		3,231	2,806
Placements with banks and other financial institutions		7,353	6,929
Loans and advances		10,016	11,826
Interest receivable		230	477
Investments in associates		60	94
Other investments		132	99
Other assets		585	310
Premises and equipment		475	455
		25,197	20,204
LIABILITIES			
Deposits from customers		10,315	10,389
Deposits from banks and other financial institutions		10,664	8,323
Certificates of deposit		300	241
Interest payable		132	362
Other liabilities		300	377
Minority interests		414	317
		22,125	20,009

TERM NOTES, BONDS AND OTHER TERM FINANCING

	1,296	1,481
SHAREHOLDERS' FUNDS		
Share capital	1,000	1,000
Treasury stock	(74)	(73)
Reserves & retained earnings	787	705
Current period's profit	63	114
	1,776	1,744
	25,197	20,204

CONSOLIDATED INCOME STATEMENT

(9 month period to 30 Sept 1998)

	(US\$ million)	Jan - Sept 98	Jan - Sept 97
INCOME FROM OPERATIONS			
Net interest income		306	319
Other operating income		265	214
TOTAL INCOME		571	533
Operating expenses		(309)	(296)
OPERATING PROFIT BEFORE LOAN LOSS PROVISIONS		264	237
Loan loss provisions		(136)	(55)
PROFIT BEFORE TAXATION AND MINORITY INTERESTS		128	182
Taxation on foreign operations		(36)	(36)
Minority interests in subsidiaries		(29)	(32)
NET PROFIT FOR THE PERIOD		63	114

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday November 24 1998

A taxing harmonisation

Oskar Lafontaine, Germany's mercurial finance minister, has made no bones about his ambitions for tax reform in the European Union next year. Once the euro has been launched on January 1, he will be promoting tax harmonisation between the member states, both to shut down tax havens, and to shift the tax burden from labour to corporate taxation. His ideas seem certain to run into fierce opposition from the UK government, not to mention the Irish, the Luxembourgish and the Danes.

Members of the future eurozone are undoubtedly worried at the danger of some countries using tax competition to attract investment, once a single currency has eliminated exchange rate competition between them. The low corporate tax rate in Ireland, for example, is seen by many EU members as an example of such "unfair" competition.

Highly taxed countries like Germany, Belgium and Austria are also concerned at the tax evasion they see when private investors move their savings to low-tax countries, like Luxembourg. However, before they embark on a clumsy and probably unwelcome exercise to harmonise taxes, they need to be clear where the problem lies.

In some cases, tax discrimination can be a disguised form of state aid, where there is a different tax rate for the same activity, for example between a foreign and domestic investor. That

should be firmly discouraged. But where a country chooses to have a different tax structure from its neighbours, because it is considered more equitable or more efficient, that cannot be regarded as unfair competition. It is perfectly legitimate.

It is precisely for that reason that questions of tax policy are still subject to unanimous decision-taking in Brussels. Gordon Brown, the British chancellor, is quite right when he insists he can always use his veto on unacceptable harmonisation. He is determined that highly-taxed and high-spending countries like Germany should not be allowed to protect themselves from genuine competition from those who are more prudent.

There are some grounds for introducing greater tax transparency, and a greater exchange of tax information. But to work that has to be done at a wider level than just the EU. The very least is an agreement covering all members of the Organisation for Economic Co-operation and Development. A compulsory withholding tax would threaten to drive non-EU investors from European markets, to the detriment of the EU as a whole.

Mr Brown is right to remind his partners of his powers of veto over tax harmonisation. Mr Lafontaine would do well to think very carefully about what he proposes, before he rushes into a damaging and divisive battle.

For the birds

Counting wildfowl makes some people very happy: now the UK government is going to do it to help everyone assess their state of contentment. The bird index, to be published annually in October, will be one of 13 separate statistics, which ministers describe as a new barometer of the quality of life.

This will provide a harmless occupation for official statisticians, and may give innocent pleasure to some members of the public who do not already have access to the figures. The indices range from the familiar gross domestic product, through public investment and housing quality to measures of air pollution, climate change, water quality and wildlife.

They will be brought together to emphasise the importance of environmental and social concerns alongside more traditional measurements of economic welfare. Ever since 1993, when the US Commerce Department started to prepare comprehensive national income statistics, it has been obvious that GDP is an incomplete measure of national welfare. Countries may get rich while also becoming more squallid, squandering natural resources and ignoring social deprivation.

A Labour government is more than entitled to draw attention to such problems and to publish relevant statistics. But combining

them into a single barometer is open to two objections.

First, the selection is arbitrary. Why, for example, is public investment to be given more emphasis than private investment? Why measure birds rather than cats? And why were divorce, crime, drug use, poverty, hospital waiting lists, or watching football not included?

The list is so slanted, that any party - or individual - could make a different selection. Consequently, the basket of indices could well be modified after a change of government and it is never likely to command the general respect accorded to more objective measures, such as the retail price index or GDP.

Second, and more important, 12 of the government's 13 indices represent some (and only some) of the competing priorities on which individuals and their elected representatives can choose to spend their cash. The 13th, GDP, is different in kind. It measures the cash value of what society has spent. In a free society, people may choose to spend their incomes in a myriad different ways. Combining these indices might, therefore, confer a spurious objectivity on the choice by a particular set of ministers, anxious to please different lobbies.

All in all, this looks too much like a gimmick, whose real purpose is to give a precision to government aims they cannot bear.

US and Asia

Bill Clinton and Al Gore have both been on trips to Asia. But the audience they were really addressing was back home. The White House should beware. Playing to the domestic gallery could create an Asian backlash.

Mr Clinton's hard words on trade in Tokyo, on *chaebol* in Seoul, and Mr Gore's speech to the Asia-Pacific Economic Co-operation forum in Kuala Lumpur, were carefully calibrated to register well in the opinion polls. A slowing economy means that the growing US current account deficit, largely ignored during the record expansion, is once again becoming a hot topic. Mr Gore, his sights fixed on the Democrat presidential nomination, needs to appear tough on trade and foreigners. Apec provided a stage.

Asian leaders should heed these warnings. The changing tides of US domestic politics are central to US foreign policy. But the US should be careful too. Mr Clinton's tough words on the South Korean *chaebol* have given *chaebol* apologists a political stick with which to beat President Kim Dae-jung, accusing Mr Kim and his much needed reforms of playing into the hands of meddling Americans. Mr Gore's words on Malaysian protests, purportedly designed to champion the reformers, similarly handed an advantage to prime minister Mahathir

Mohamed, allowing him to play the nationalist card.

South Korea, Indonesia and Thailand have little choice but to try to export their way out of trouble. Deep recessions were imposed on these countries, in part by policies urged by the International Monetary Fund and the US Treasury. The US can hardly complain if exports now increase.

Providing a backlash will distract from the central issue. A Japanese recovery is a prerequisite for a wider Asian recovery. And until the Japanese government begins to tackle the structural weaknesses and overcapacity of its economy, a recovery there looks unlikely.

Japan cannot rely on exporting its way out of trouble or US trade hawks will not be the only people to squawk. Japan must help its neighbours by absorbing their exports. Mr Clinton was right to point this out. But aiming primarily for political points at home, rather than progress in Japan, obscures the message.

Furthermore, trade disputes could lead to security matters. North Korea, instability in Indonesia, and respect for human rights in China are all difficult matters requiring both US leadership and co-operation with Asian governments. But by beating the drum to the tune of domestic pollsters, the US risks undermining its legitimate role.

In a world of ever-vaster bids and deals, yesterday's £7.6bn (\$12.8bn) merger of Siebe and BTR hardly seems to merit particular attention. True, in one respect it is a sad ending to a remarkable tale. Throughout the 1980s, BTR was one of the brightest stars in the UK corporate firmament. Now, after a prolonged decline, it has been snuffed out.

True, too, it is the beginning of a brave new story - that of Siebe's emergence as a world-class engineering company (see below) - or so the deal's proponents would have it.

But the real lessons of BTR's demise have a broader application and are less comfortable, not least for Siebe itself. They throw into unsettling relief the continued problems of conglomerates and, especially, the difficulties of companies made in the image of their creator.

BTR was built by one man - Sir Owen Green - on a single premise: that management was a generic skill, and that good managers could manage anything. In the end, this proved false; but in the event, the strategy proved impossible to reverse.

In its heyday BTR, like Hanson, was a pure acquisitive conglomerate. It thus typified a corporate model which, by the early 1980s, plainly had no future.

Hanson conceded the point and split itself up. BTR, though, had always aspired to higher things. Other conglomerates might be mere asset traders: BTR was a manufacturer.

So if the name of the game was now focus, BTR would become a manufacturing specialist. Hence its disposal programme, which has halved the group's revenues in a little over two years.

The aim was to become a pure engineer. As the plunging share price showed, the strategy failed. So BTR has now thrown itself on the mercy of Siebe, whose engineering credentials are rather better established.

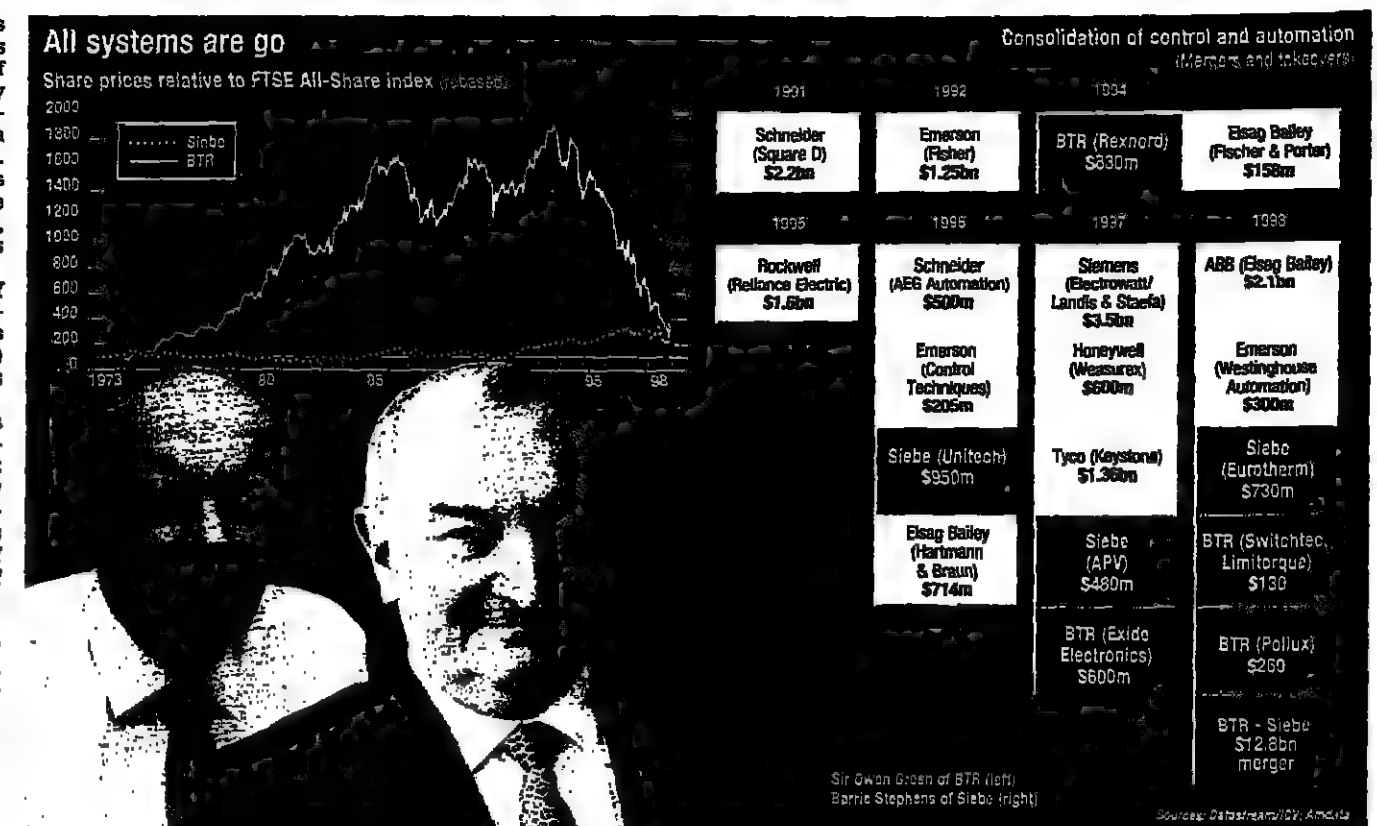
But there is an unsettling parallel. When Sir Owen Green took over as chief executive of BTR in 1967, it was a tiny company with a distinguished past and no future. Its enormous growth in value - to more than £14bn at its peak - was his achievement, and did not survive his retirement.

Likewise Siebe. When Sir Barrie Stephens took over in 1983, it had a fine history as a 19th century engineer, but its revenues had dwindled to a mere £1m. Its growth since then - less spectacular than BTR's, to be sure - was likewise his monument.

The parallel can be pressed. Sir Owen retired in 1993. In August

One-man shows

Tony Jackson argues that there are lessons in the Siebe/BTR merger that could apply even to Microsoft or News Corp



of that year, BTR's shares hit their all-time high relative to the market. Since then they have underperformed by 87 per cent.

Sir Barrie, his junior by some four years, did not retire until last May. In that month, Siebe too hit its all-time high relative to the market. Since then it has underperformed by 40 per cent.

Given BTR's longer decline, the reversal of fortunes has been remarkable. At its absolute peak in 1984 BTR was worth £14.2bn, while Siebe was worth £2.5bn. By last Friday's close, Siebe's value was £4.5bn, while BTR's had slumped to £3bn.

With hindsight, it is fairly easy to say where BTR went wrong. Ostensibly, its skill was to buy ill-run companies and make them more efficient. In reality, it relied heavily on one tactic: pushing up prices.

One of Sir Owen's senior lieutenants, the late John Cahill, would relate how he bought auto component suppliers in the US in the 1980s and promptly doubled their prices. There would be howls of protest from Detroit, but most would fall in line.

In this respect, BTR was a child of inflation, a one-trick pony. Today, prices of manufactured goods are in steady decline. The only response is to raise unit volume - a skill which BTR, it

seems, never really grasped. Deflation, it seems, has claimed another victim.

But Siebe, its admirers will protest, is nothing like that. For a start, it was never an acquisitive conglomerate.

Really? In the mid-1980s, the heyday of the conglomerates, Siebe made anything from gas masks and wound dressings to fire engine ladders. It doubled and tripled its size by acquiring makers of garage equipment and compressed air machines.

Its present image as a maker of sophisticated process controls dates from 1980, when it acquired Foxboro, a venerable but flagging US company.

For Siebe, it was the defining purchase. The equivalent for BTR was the 1983 acquisition of Thomas Tilling, a falling conglomerate much larger than itself. But while Tilling confirmed BTR's conglomerate status, Foxboro turned Siebe into a specialist high-technology engineer just as the conglomerate idea was dying.

Now, that may be changing again. Though BTR is presented as a seamless fit, in reality, it is still something of a ragbag. That is, Siebe is taking a step back towards the conglomerate image which it been at pains to shake off.

Its future may thus be less clear-cut than its supporters would have us believe. Just six months after the departure of the man who made it, Siebe is taking a gamble which could make or break it.

It is at this point that the tale of BTR and Siebe comes to illustrate a general truth. It is unsettling to recall how many companies in recent years have failed to establish a life independent of their founders.

Obvious cases are Hanson and Lonrho, which lasted only as long as Lord Hanson and Tiny Rowland respectively. But who can seriously believe that News Corporation will long survive Rupert Murdoch? Indeed, who would give odds on Microsoft's future if Bill Gates fell under a bus?

This is not to say all companies with high-profile, dominating bosses are vulnerable. These cases are very different from such well-known executives as Jack Welch of General Electric or Lou Gerstner of International Business Machines. Mr Welch is merely one distinguished figure, in a line which stretches back to Thomas Edison. Mr Gerstner deserves credit for reviving the creation of Thomas Watson Sr, but he is no longer indispensable to its future.

The BTR saga raises a further awkward question. The company turns out to have been a one-trick pony. That is easy to see with hindsight. But how many other one-trick ponies are enchanting investors today?

That is to say, how many companies are enjoying success contingent on a set of finite circumstances? Some of them may be the stars of today's market. For after all, it is those companies which best match their circumstances that do best while the good times roll.

BTR flourished by exploiting inflation and an inefficient market for corporate control. Which companies are now thriving on deflation, or on efficient markets? Which are making hay from the globalisation of trade, and how will they fare if protectionism returns?

It may seem a long way from such reflections to the fairly modest deal announced yesterday.

It might also seem implausible that such mighty entities as Microsoft or Dell Computer could fail to survive their founders.

But when the climate turns, it turns fast. Recall that when Sir Owen Green retired six years ago, BTR was the seventh biggest company on the UK stock exchange; and look at it now.

Britain's engineering hope

It is a formidable challenge. From a position 150 years ago when the likes of James Watt, Samuel Crompton and Isambard Kingdom Brunel were well known for their role in creating the UK's industrial revolution, British engineering has fallen into obscurity.

The industry complains that not enough young people are studying the discipline; John Robinson, chairman of the Confederation of British Industry's technology committee, said last month that university applications for engineering degrees had fallen 28 per cent in three years, with physical sciences

applications down 25 per cent. The upshot is that many UK engineering companies cannot find enough qualified people. Britain has about 500,000 people doing an engineering job carrying a technical qualification, working not just for companies making engineering products but those such as utilities or chemical suppliers which have an engineering side. According to recent surveys, such companies need up to another 25,000 such people - a huge shortfall.

The biggest problem appears not to be salaries, which are comparable to those in other professions (at least for qualified

people in their 30s) nor the work they do, which many judge to be at least as interesting as in disciplines with more cachet such as medicine. Rather it is because many people equate engineering with dirty, dangerous or boring work.

Few of Britain's biggest engineers have been able to change this poor image - and Siebe is no exception. In Germany, engineers may like to go to work for a company producing expensive, smooth-running cars. But it is hard to get excited about what Siebe does - producing widgets and systems that make factories work.

To be fair to Siebe, the aero-engine supplier Rolls-Royce - the one big UK engineering success story with products that virtually everyone can identify with - has done no better. Its senior executives are almost as reluctant as those at Siebe to lend a hand in brightening the dull image of the discipline in the UK.

The merged company, with over 10 per cent of the global market for factory controls and automation, is a world-class outfit. But until the UK's engineering industry can attract the most talented people, it will find it hard to extend Siebe's success into other areas.

OBSERVER

Deutsche marks Dimon's card

Deutsche Bank hasn't fought shy of hiring big in the US, even if it has sometimes ended up with egg on its face. Two years ago it hired Silicon Valley investment banker Frank Quattrone - who jumped ship last July to Credit Suisse First Boston taking more than 100 of his technology experts with him.

But now that it seems to have Bankers Trust in the bag, Frankfurt is wondering whether Germany's biggest bank will try to hook another big fish - Jamie Dimon, 42, following his departure this month as president of Citigroup.

Dimon would surely demand a top-notch job - like running the new investment banking unit. But that was apparently earmarked early on for Bankers Trust chairman Frank Newman, perhaps in tandem with Josef Ackermann, Deutsche's head of investment banking.

Rumours on Wall Street following the forced resignation of Dimon three weeks ago had a discontented Bankers Trust board ousting Newman in favour of the dynamic Dimon. But Newman's position may be more secure under his new German masters. And, for the ambitious but wary Dimon, even a senior position at Deutsche Bankers Trust might not cut any ice.

He has been badly burnt by

events at Travelers Group. His relationship with his mentor, Sandy Weill - now co-head of the merged Citigroup - deteriorated after a row over the role of Jessica Biblowicz, Weill's daughter, who left the firm. Dimon might steer clear of putting his fate in the hands of a bigger boss.

Soft cellar

Rome wasn't built in a day, but the foundations for Project Rome - the codename for the merger of Siebe and BTR, two of the venerable names of British engineering - may have been laid longer ago than three and a half weeks, the timetable given by both companies yesterday.

Observer spotted BTR boss Ian Strachan nine weeks ago at Möt & Chandon's cellars in Epemay, east of Paris, where he was spending a weekend in the champagne house's glorious guest house, the Chateau de Saran. The guest list also included Piers de Montfort and Sir Anthony Tennant, two of Siebe's advisers from Morgan Stanley. A suitably old world setting for a discreet word over the fuzzy stuff.

On the loose

Maybe it's a coincidence - maybe not. Just after Israel released 250 Palestinian prisoners, a gang of thieves pulled off what may be the

biggest heist in West Bank history. At the weekend, a dozen masked and bewigged bandits held up a van from the Cairo-Amman Bank as it wove its way through the scenic hills between Hebron and Ramallah: they fired a few shots and ran off with \$500,000 in cash.

Palestinians were furious last week when, under the latest stage of the peace process, Israel freed straightforward criminals rather than the political activists the Palestinians had been hoping to welcome home.

Police are not yet sure whether the robbers were Israelis, Palestinians - or both. As Yasser Arafat and Benjamin Netanyahu grope towards some sort of accommodation, Arab and Jewish criminals have been quicker to recognise that working together can really pay off.

Shipshape shop

Employees of Mitsui OSK Lines were puzzled when Masaharu Ikuta, president of the Japanese shipping outfit, cleared out two whole floors at Tokyo head office in the summer. Times are tough, so staff wondered - not always quietly - why Ikuta didn't rent out the space to earn a few yen. The boss maintained a Zen-like silence.

All became clear at the weekend when Mitsui launched its takeover of tanker titan Navis Lines: the space is reserved for Navis staff. Ikuta admits that his

space clearance must have looked "crazy" to the 1,130 Mitsui employees, but he's pleased that he managed to keep the merger plan a secret.

The whole thing got under way last year at a party held by executives of Cosmo Oil, the troubled petrol group. Ikuta and Navis boss Noriaki Hori slipped outside for a chat and ended up shaking hands on the bones of a merger. Corporate communication is all very well, it seems, but forward planning takes precedence.

Police are not yet sure whether the robbers were Israelis, Palestinians - or both. As Yasser Arafat and Benjamin Netanyahu grope towards some sort of accommodation, Arab and Jewish criminals have been quicker to recognise that working together can really pay off.

Mouthpiece

Yuri Luzhkov, Moscow's populist mayor, has a lot of explaining to do if he wants to win the Russian presidential election in 2000. Earlier this year, he seemed to be flirting with the communists, then last week he formed a new party - Fatherland - which he said would woo the political centre.

So what better spokesman for Luzhkov than Sergei Yastrzhembsky, who, as the voice of the Kremlin, issued regular "clarifications" of the remarks of President Boris Yeltsin?

Yastrzhembsky lost his Kremlin job a couple of months back, apparently for opposing the appointment of Yevgeny Primakov as prime minister. Now the former diplomat has swapped the communist-bashing pretender. His clarification skills had better be in good shape.

Peter Marsh

100 years ago

Regeneration of Spain Saragossa, 22nd Nov. The Commission appointed by the General Assembly of Spanish Chambers of Commerce to consider the political and administrative reorganisation of the Army and Navy has concluded its report. It suggests that the State arsenal should be closed, that the Merchant Marine should be placed under the control of the Ministry of Agriculture and Trade, and that the rewards offered to officers in connection with the campaign against the rebels in Cuba should be revised. It is proposed that the holding of any State employment should be declared incompatible with the duties of mayor or deputy.

50 years ago

S. Africa Election Cape Town, Nov 23. Hopes that the natives will retain parliamentary representation in South Africa are believed to be seriously affected following the election of a new Native Representative in the House of Assembly for the Cape Western constituency. Mr. Sam Kahn, a Communist, was elected, defeating Mr. D.M. Buchanan, United Party, and Mr. van der Merwe, Nationalist.

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Week 48

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INSIDE

Bottled iceberg water nets a profit

The persistent attempt to harvest Canadian icebergs for pure drinking water has paid off for Ron Stamp, ex-fish marketer and president of Iceberg Industries. He was first to bottle and distribute iceberg water after pioneering a process to tear off chunks of icebergs and ship the melted water to port. "I went from village idiot to entrepreneur of the year," he says. Page 26

Greek pistachio farmers call for help

Greek pistachio farmers are calling for state support to overcome daunting start-up and marketing costs to take advantage of soaring demand for the nut in the country. Greek supermarkets sell pistachios imported from California and Iran while almost none of Greece's 8,000 tonnes crop is exported. Page 34

SE Banken deal wakes Baltics briefly

Last week's announcement that Sweden's Skandinaviska Enskilda Banken will buy stakes in two leading Baltic banks, and is negotiating with a third, briefly woke Baltic markets from their slumber. But activity in Estonia, Latvia and Lithuania quickly subsided as investors awaited figures for the impact of the Russian crisis on Baltic economies. Emerging Markets, Page 44

Philippines considers bond issue

Asian countries are preparing to test investor appetite for sovereign bonds from emerging markets. After the success of Argentina's recent \$1bn offering, China and the Philippines are considering taking advantage of a sharp recovery in Asian secondary debt markets. Page 32

Jakarta stocks rise despite riots

Sharp gains were made in Jakarta as overseas investors continued to buy despite further violence at the weekend. The main index closed 20 per cent higher than a week ago. Page 44

S & P establishes Singapore office

Standard & Poor's, the credit rating agency, is reacting to criticism of its response to the Asian financial crisis by setting up a team of sovereign credit analysts in Singapore. Page 32

Namibian zinc mine set to open

A feasibility study recommended development of the Skorpion zinc mining complex in Namibia, destined to be the biggest zinc producer in Africa and one of the top 10 by output in the world. It should add about 5 per cent to Namibia's gross domestic product. Page 34

Economic turmoil helps lift AIM fund

AIM Global Advisors, part of the Amvescap fund management group, said global economic turmoil had helped its European money market funds increase 44 per cent. Page 32

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AOL, Netscape discuss stock swap

By Louise Kehoe in San Francisco

America Online, the world's leading online services and internet access provider, confirmed yesterday that it was in talks to acquire Netscape Communications, the pioneer of internet browser software.

Netscape also confirmed the talks and said they were discussing a stock swap deal under which shareholders would receive 0.4 shares of AOL for each Netscape share held.

The potential \$4bn merger would reshape competition in the internet sector and create a powerful counterweight to Microsoft, the world's largest software company.

Microsoft criticises possible \$4bn internet sector deal

Goldman Sachs is advising AOL in the merger talks, and fellow investment bank Morgan Stanley is advising Netscape.

Microsoft said the proposed deal would undercut the US government's current legal action against the company, which alleges that Microsoft has acted to prevent competition in internet software.

But AOL stressed the deal was not signed and "there could be no assurance that an agreement will be reached or a transaction consummated."

Microsoft said the proposed deal would undercut the US government's current legal action against the company, which alleges that Microsoft has acted to prevent competition in internet software.

But AOL stressed the deal was not signed and "there could be no assurance that an agreement will be reached or a transaction consummated."

Netscape's shares rose sharply on news of the potential acquisition. At mid-session the stock was up 7 per cent at \$42 1/16, on heavy volume.

AOL was also trading higher at \$89 7/8, up nearly 5 per cent in mid-session.

In contrast to more recent internet entrants into the public market, which have achieved huge market valuations based largely on hopes of future sales, Netscape's valuation is grounded by its financial performance and the market challenges it faces.

The latter have been well documented in the Microsoft antitrust trial, currently under way in Washington. The gov-

ernment's case against Microsoft has portrayed Netscape as the victim of Microsoft's alleged bully tactics and emphasised its thus weaknesses.

AOL, which has also testified against Microsoft at the trial, is in a unique position to challenge the software giant.

AOL competes directly with Microsoft only in the market for online services - a very small portion of Microsoft's business.

However, AOL's online transmissions to more than 14m subscribers represent a lucrative distribution channel for many products, including software and services.

AOL also confirmed yesterday that Sun Microsystems was involved in the ongoing talks with Netscape. Sun, which is a leader in the market for internet servers, was discussing a "development and marketing agreement for electronic commerce and new internet devices, which would involve Netscape products."

Sun is not expected to take an equity stake in Netscape but is said to be interested in licensing some of Netscape's products, particularly those used by website operators.

Lex, Page 22
Microsoft claim, Page 28

Siebe and BTR link up in deal worth £9bn

By Andrew Edgecliffe-Johnson and Peter Marsh

Siebe and BTR, two of the UK's largest engineers, are merging to form the world's biggest control systems and automation company, valued at £9.1bn (\$15.7bn).

The new group will have just over 10 per cent of the \$110bn controls and automation market, selling products ranging from controls for washing machines to systems capable of automating huge industrial plants.

Allen Yurko, chief executive of Siebe, who will take on the same role in the combined group, said it would be "capable of going toe to toe" with industry giants such as Emerson Electric of the US, Siemens of Germany and the Swiss-Swedish ABB.

He added the two companies were reacting to consolidation in the industry, saying: "This is a big market and it needs big players."

The deal, described by advisers as the UK's largest merger of manufacturing companies, is effectively an agreed takeover by Siebe.

BTR shareholders will receive 0.533 Siebe shares for each BTR share they hold, and end up with 45 per cent of BTR Siebe.

Lord Marshall, Siebe's chairman, will take the same role at BTR Siebe, and Jim Mueller, head of Siebe's controls activities, will step up to group chief operating officer. BTR's chief executive, Ian Strachan, will become executive deputy chairman, but is widely expected to leave once the two businesses have been integrated.

Shares in BTR, which had fallen by 80 per cent since 1995 to reach a 14-year low, rallied by 38p to 133p yesterday, valuing it at £4.4bn, while Siebe rose 25p to 243p, giving it a £5bn market value.

The two groups expect to take £260m off their combined annual costs by the year to March 2000. They are cutting 5,000 jobs, including 1,000 from the UK, from a combined workforce of 125,000. Mr Yurko said they hoped for further benefits from eliminating overlapping functions and selling each other's products.

The merged company will have to spend £400m on the restructuring, which it will treat as an exceptional charge.

Lex, Page 22
Murdoch gains ground, Page 25

Deutsche Bank and Bankers close in on merger

By Tracy Corrigan in New York

Deutsche Bank, Germany's largest bank, yesterday said it was in the advanced stages of negotiations to buy Bankers Trust for cash at a proposed price of \$65 per Bankers share, valuing the US bank at around \$9.7bn.

The deal would be the largest takeover of a US financial company by a foreign competitor, combining Germany's largest bank with the eighth largest US bank, measured by assets. It would represent a bid by Deutsche Bank to resume its aggressive push into the US which it failed to achieve through organic growth.

Bankers Trust shares rose almost 10 per cent to \$65 following the announcement, while Deutsche shares jumped to DM118.30 before falling back to close up DM1.85 at DM109.35.

The banks said that the board of directors of Bankers and the steering committee of Deutsche's Vorstand - or executive board - have already reviewed and indicated their support for the proposed transaction, but have yet to approve it. Separate board meetings are

Murdoch to expand in Europe

Partners sought for television subsidiary

By John Sapper in London and Paul Hume in Milan

News Corporation, the global media group controlled by Rupert Murdoch, yesterday said it intended to expand into television and entertainment across Europe and would invite other media companies to invest in the venture.

Mr Murdoch said he wanted other media companies to acquire up to 20 per cent of a new European subsidiary, which would be run from Milan by Letizia Moratti, the former chairman of the Italian state broadcasting group RAI.

The initiative was announced along with a draft agreement for News Corp to take a 38 per cent stake of a new Italian digital pay television service that will be controlled by Telecom Italia, the state telecoms group.

TFI, the French television group, will hold 10 per cent of the venture, which will compete in Italy with Telepiù, 90 per cent owned by its rival Canal Plus. TFI and News also intend to start a youth television channel in France.

Mr Murdoch said the venture with Telecom Italia, which has appointed a new chief executive, could fall through. He told a news conference in London that it would "either start very quickly or not at all".

Mr Murdoch also indicated that News was unlikely to take more than a small stake in the Kirch Group of Germany. It has been talking to Kirch and



On the same wavelength: Rupert Murdoch and Letizia Moratti walking in London yesterday

Mediaset, the Italian company, and Prince Al Waleed of Saudi Arabia.

"The level of investment that is being contemplated (by Leo Kirch, Kirch's chairman) has certainly been scaled down," Mr Murdoch said. However, he would consider the Kirch Group as a strategic investor in News Corp Europe.

News Corp is unlikely to buy more than 3 per cent of Kirch which has been talking to its banks about swapping some of its debt for equity in its German television ventures.

Canal Plus shares fell by 8.5

per cent yesterday on fears that Mr Murdoch's partnership with TFI would provide strong competition in the French and Italian markets. Canal Plus wants to float Telepiù, which is losing money.

Mr Murdoch said he expected the new Italian company - which will include Telecom Italia's cable television venture Stream - would start by offering up to 100 channels to subscribers via satellite and cable, but could expand later.

The announcement provoked renewed political concern in Rome. Salvatore Cardinale, the

Italian communications minister, has expressed his opposition to Mr Murdoch's plans.

Mr Murdoch said News Corp Europe might consider acquiring magazines and broadcasting assets, but he was not interested in acquiring general interest newspapers. He owns UK titles The Sun and The Times. Mr Murdoch has been trying to expand in continental Europe for several years. His effort to acquire Mediaset fell through earlier this year.

Lex, Page 22
Murdoch gains ground, Page 25

Tyco in \$11.3bn 'white knight' offer for AMP

By Richard Waters and Nikid Tait in New York

The biggest hostile US takeover battle since the early 1990s appeared closer to a resolution yesterday after Tyco International launched an \$11.3bn "white knight" bid for the embattled AMP, the electrical manufacturer.

The offer, worth \$51 a share in stock, trumped a hostile \$44.50 all-cash deal from AlliedSignal, the manufacturing group, made in August. If Tyco's stock moves above \$67, the consideration will also rise, to a maximum of \$55.98.

Wall Street signalled its expectation that this higher offer would carry the day, marking up shares in both AMP and AlliedSignal while wiping 5 per cent from Tyco's stock.

Tyco's intervention was aided by a 40 per cent rebound in its share price since early last month, which enabled it to offer stock while keeping its promise of only mounting takeovers that add to its earnings per share immediately.

The broad-based conglomerate, New Hampshire's only entry in the Fortune 500 listing of big US groups, also outlined a range of potential cost-savings from the deal that it claimed would top the benefits AlliedSignal had hoped to achieve.

According to Dennis Kozlowski, chairman, these included an annual \$100m tax benefit that the company would receive from having its legal residence in Bermuda.

The two sides said they had

agreed a break-up fee that would pay Tyco \$300m, plus fees of up to \$30m. If AMP walked away from the deal, AMP, whose legal defence against AlliedSignal had appeared to be flagging, said it had started to talk seriously to Tyco about two weeks ago. It added that there had been various discussions and approaches to its financial advisers.

AMP also noted that Tyco tended to give its operating subsidiaries a good deal of autonomy, and run only a small corporate head office.

Under the Tyco-AMP deal, Robert Ripp, who became AMP's chief executive shortly after the AlliedSignal bid battle began, will remain at the helm of the electrical and electronic connector business.

Mr Kozlowski denied that Tyco had given Mr Ripp and his management team special treatment for acceding to his offer. "I think he is a talented executive, he will fit nicely into the Tyco culture," he said, adding that, like other executives, Mr Ripp would only receive a bonus in future if he boosts AMP's earnings by at least 15-20 per cent a year.

AMP said it also expected its own restructuring effort to continue. In the course of the bid battle, AMP has promised that this will generate earnings per share of \$2.30 in 1999 and \$3.00 by 2000, with operating margins increasing to 13.5 per cent next year and 16.5 per cent in the following 12 months.

Lex, Page 22

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COMPANIES & FINANCE: ASIA-PACIFIC

POWER ENTERGY SELLS AUSTRALIAN GROUP TO AEP SUBSIDIARY AS PART OF DIVESTMENT OF NON-CORE ASSETS

US group disposes of CitiPower for A\$1.7bn

By Gwen Robinson in Sydney

Entergy, the US power company, yesterday said it had sold CitiPower, its Australian electricity distribution business, to AEP Resources, a subsidiary of American Electric Power, for A\$1.7bn (US\$1.1bn).

The sale price was in line with expectations and represented a slight profit for Entergy, which acquired CitiPower from the state

government of Victoria in early 1996 for A\$1.5bn.

Entergy said it expected a gain of about 12 US cents a share, after currency-exchange and interest-rate differences, when the sale closed at the year-end.

The sale was part of Entergy's business strategy, announced in August, to divest non-core assets and refocus on core operations in international power development and power marketing

and trading, as well as nuclear power operations.

The company's largest disposal is that of London Electricity, which has drawn bidders including British Energy and Electricite de France and is expected to raise £2bn (US\$3.1bn).

Entergy hopes to realise about US\$4bn in total, with most of the proceeds to go toward reducing debt.

Its new emphasis on core businesses led last week to

the \$30m acquisition of the Pilgrimage nuclear power station in Plymouth, Massachusetts.

In Australia, the company is involved in the Tarong power generation project in central Queensland and has signalled interest in other projects.

Robert Luft, chairman and acting chief executive officer, said the company was pleased with the CitiPower sale. "Entergy's refocused

strategy is taking shape at a pace that exceeds even our initial expectations."

Remaining divestments would be completed "on an accelerated schedule and at favourable terms", he said.

The CitiPower acquisition followed several attempts to break into the Australian electricity market through government privatisations.

AEP has a 20 per cent stake in Pacific Hydro, a Victorian developer and opera-

tor of hydro-electric power facilities. But the acquisition of CitiPower would give it an opportunity to "sharpen" its skills in the competitive

Australian power market ahead of further deregulation in the US, said Donald Clements, president of AEP Resources.

AEP's bid defeated two other groups, one led by Texas Utilities Co, which owns another Victorian distributor, Eastern Energy,

and the other led by Singapore Power, which had made two unsuccessful attempts to buy into the Australian electricity market.

Victoria is the only state to have privatised its electricity market, although other states are planning to do so.

AEP has no plans to list CitiPower, which has annual sales of about A\$450m and net profit of about A\$50m, on the Australian stock market.

Earnings at CLP increase by 41%

By Louise Lucas in Hong Kong

CLP Holdings, the bigger of Hong Kong's two electricity suppliers, yesterday reported a 41 per cent rise in group earnings to HK\$6.14bn (US\$7.05bn) for the year to September 30.

The core utility business, regulated under a government scheme of control, posted a 44 per cent rise in earnings to HK\$4.97bn. The rise was driven by better weather, which prompted greater use of air conditioning, and a reduction in operating and capital costs.

Earnings not governed by the scheme of control increased 60 per cent to HK\$1.63bn. This included an exceptional profit of HK\$1.84bn on the sale of flats at Laguna Verde, a property development jointly run with Cheung Kong, the property developer.

The results are the first by the restructured CLP Holdings, which came into being at the beginning of this year. They include the electricity business as well as assets outside the scheme of control, such as mainland power investments and property.

Capital spending fell, with expenditure in the transmission and distribution network totalling HK\$1.93bn, against HK\$2.62bn in 1997.

In earnings outside the scheme of control, there was a fillip from the proceeds of a share placement to Citic Pacific, the Hong Kong-listed arm of Beijing's main investment agency, in 1997. The higher Hong Kong dollar interest rates boosted interest income to HK\$1.15bn, against HK\$702m last year.

Earnings per share rose 30.2 per cent, from HK\$2.62 to HK\$3.38. Excluding the exceptional item, earnings per share rose 5.6 per cent to HK\$3.68. A final dividend of HK\$0.48 is proposed, plus a special dividend of HK\$0.10 a share.

Regent Pacific in red midway

By Louise Lucas

Regent Pacific, the Hong Kong-based asset management group, reported a US\$57.1m loss for the six months to September 30 after writing off some \$61.5m unrealised losses on investments in Russia and former Soviet satellite republics.

The loss compares with a profit of HK\$42.37m (US\$5.5m) last time. There will be no interim dividend.

One-third of the group's managed funds were invested in Russia ahead of the financial crisis; a further 25 per cent was in eastern European markets, which were also affected by Russia.

The group's decision to quit the Asian mutual fund business meant it was relatively unscathed by the region's financial crisis.

However, its immunity ran out in August when the Russian government suspended its domestic bond and currency market; a development, Regent Pacific said, which was without precedent since China in 1947. Plans to sell its Russian Securities business were aborted by the crisis, and overheads there have been slashed. Elsewhere in the group, lay-offs and pay cuts have helped reduce costs.

Chief defends Daewoo finances

By John Burton in Seoul

Kim Woo-choong, chairman and founder of Daewoo, yesterday denied that South Korea's fourth largest conglomerate was in financial trouble as he called for a slowdown in chaebol reforms.

Recovering from brain surgery performed last week, Mr Kim was repeatedly asked at a press conference about Daewoo's financial health. "Daewoo is not in need of any restructuring for now as none of its affiliates, except for recently acquired Ssangyong Motor, is in the red," he said.

Mr Kim, who also heads the Federation of Korean Industries, the big business lobby group, criticised government efforts to force the chaebol to cut large debt bur-

dens, saying it would harm economic growth and discourage foreign investment.

During his weekend visit to Seoul, Bill Clinton, the US president, expressed impatience about the slow pace of reform among the top five chaebol. The leader of Korea's opposition party yesterday accused Mr Clinton of meddling in domestic affairs and said reform should not be conducted "according to the logic of foreign investors".

Speculation over Daewoo's future has increased recently because of a sharp rise in its net debt as it borrowed heavily in the bond market to cover a deterioration in working capital.

It has become the largest corporate bond issuer in Korea this year at Won11,100bn (\$8.8bn), taking

its outstanding bonds to nearly Won20,000bn. Another issue of Won5,000bn is scheduled for today.

Other chaebol have raised money in the bond market to pay back bank loans, but Daewoo has also reported an increase in bank loans, according to the government's Financial Supervisory Commission.

Nomura Securities said Daewoo's position was worrisome since most of its borrowings were short-term and the funds were being used to meet working capital requirements.

Adding to the concerns was a government decision to impose limits on the amount of corporate bonds held by financial institutions, which would hurt Daewoo's ability to raise funds. "Daewoo is likely to face

huge difficulties in arranging financing and it appears that its only survival option is through the sale of assets.

However, we question whether it possesses companies or assets attractive enough to entice investors into the mergers and acquisitions market," said Nomura.

Some analysts believe Daewoo's situation could improve if General Motors accepts a Daewoo proposal to inject \$2bn into Daewoo Motors. A decision is expected by the end of the year.

GM is interested in Daewoo's car plants in eastern Europe and an equity stake would also provide an entry into Korea's closed car market. But analysts are sceptical whether GM will provide the capital unless it is allowed to acquire a majority stake in Daewoo Motors.



Kim Woo-choong talks in October about expansion plans

Hongkong Telecom under fire for planned internet buy

By Louise Lucas

Hongkong Telecom's proposed HK\$245.5m (US\$32m) purchase of a rival's internet business has come under attack as "an obvious attempt to further monopolise the telecommunications industry in the territory".

The outburst from Asia Online, Hong Kong's leading independent internet pro-

vider, came as Hongkong Telecom announced its plans to buy the internet business of Star Telecom.

Hongkong Telecom says the deal would give it a market share of just over 50 per cent, but others in the industry claim it would be closer to 70 per cent.

The deal remains subject to regulatory approval. The Telecoms Authority, which oversees the industry, said it

would take into account the impact on competition in the market and consumer interest.

Asia Online said the acquisition would threaten competitiveness in the territory. "With a *de facto* monopoly in a deregulated internet market, Hongkong Telecom is in a position to practise predatory pricing against would-be competitors and control the

introduction and use of new internet technologies, such as e-commerce and internet phonefax."

"For example, Hongkong Telecom has made it clear that it opposes the introduction of internet telephone technologies which, of course, threaten the massive profits reaped from its IDD services," it said.

Star Telecom has been tipped as a seller for several

months, and in July entered talks with Hutchison Telecom. These discussions floundered, its loss-making internet business cost the group HK\$15.76m last financial year, and the group will now stick with its core business of paging and mobile phone services.

Star Internet boasts about 80,000 subscribers compared with Hongkong Telecom's 210,000, according to the latter.

Other figures show Star Internet has 150,000 subscribers. Although there are a score of internet service providers in Hong Kong, the bulk of the market belongs to only a handful.

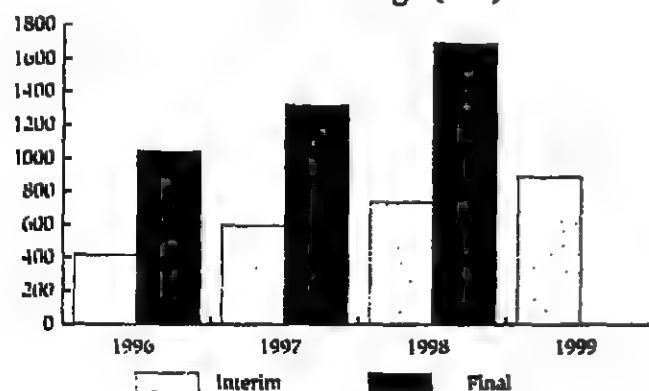
It is the second acquisition in a year for Hongkong Telecom. In January it paid HK\$4.85bn for Pacific Link Communications, Hong Kong's fourth biggest mobile telephone operator.



INTERIM REPORT TO SHAREHOLDERS for the six months ended 30 September 1998 (Unaudited)

Headline earnings up 20.3% • Headline earnings per share up 16.3%
Attributable income up 31.8% • Dividends per share up 15.4%

Headline earnings (Rm)



	30 September Unaudited 1998	1997
Headline earnings (R million)	890	740
Income attributable to shareholders (R million)	857	650
Headline earnings per share (cents)	140.1	120.5
Earnings per share (cents)	134.9	105.8
Dividends per share (cents)	37.5	32.5
Return on average equity (%)	17.8	17.2

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All financial figures are reflected in South African currency.

For a copy of the Group's interim report, which will be published on or before 31 December 1998, contact Investor Relations, ABSA Group, PO Box 260595, Ekurhuleni, 2023, South Africa. Telephone (2711) 350-4061 Fax (2711) 350-9487 E-mail ir@absa.co.za

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Postabank chairman aims to shake

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surrealistic.
I want to go
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COMPANIES & FINANCE: EUROPE

FINANCIAL SERVICES CHAIRMAN'S COMMENTS ON INTERNATIONAL ASPIRATIONS FUELS SPECULATION IN WAKE OF DEUTSCHE BANK DEAL

Dresdner Bank eyes buys and mergers

By Tony Barber in Frankfurt

Dresdner Bank yesterday said it was to expand in Europe, possibly by means of an acquisition or merger, but declined to say whether it intended to follow the example of its rival Deutsche Bank and buy a large US institution.

Bernhard Walter, Dresdner's chairman, said in a radio interview that he wanted to increase his bank's activities in the main countries using the single European currency from January 1.

"We will prepare ourselves to be stronger in Europe," he said. "Therefore we want to significantly strengthen our presence in the core euro countries. There are many possible ways, from a co-operation to a link-up, meaning an acquisition or a merger."

His comments fuelled speculation in financial markets that Dresdner and other German banks might follow Deutsche Bank on the acquisition trail abroad.

Deutsche Bank appears to have tipped Dresdner to the post, by putting together a deal - albeit still awaiting final approval - to buy Bankers Trust of the US.

Deutsche hopes that the acquisition will ensure its place in the ranks of the world's leading investment banks. Financial markets have expected that Dresdner will one day make a similar move in the US ever since the bank was reported last summer to have held informal talks with PaineWebber, the investment house.

Mr Walter declined to confirm that the discussions had taken place with PaineWebber, but made clear in September that Dresdner, like Deutsche, regarded it as important to strengthen its investment banking business in the US.

Dresdner officials said the bank, the third largest in Germany, would be interested in European financial companies that were a good "strategic fit", but added that price was inevitably an important consideration.

Like Deutsche and Commerzbank, its main Frankfurt-based rivals, Dresdner aims to exploit the opportunities presented by the euro's arrival to extend its activities across the 11-nation single-currency area.

Murdoch gains some ground in continental Europe

Italian pay-TV deal is the breakthrough the media giant has long been seeking, write John Gapper and Paul Betts

Rupert Murdoch's announcement of a vehicle for his European ambitions in pay television and other media ventures marks a step towards his goal of building a presence in continental Europe to match that in the US.

He has had the goal in sight for several years, without achieving a breakthrough. In itself, setting up a subsidiary and taking a minority stake in a new Italian pay television venture is less dramatic than some acquisitions he has considered in the past.

Negotiations to acquire Mediaset, the dominant commercial broadcaster in Italy, fell through earlier this year, and his prolonged discussions with Leo Kirch, the German media owner, have yet to lead to any concrete agreement.

Yet the establishment of the News Corporation Europe group under the leadership of Leticia Moratti, the former chairman of the Italian state broadcaster RAI, is a demonstration of the strength of Mr Murdoch's European ambitions.

"There are two great markets in the world - one is North America and the other is Europe. They are almost equal in size and you cannot globalise a company without having some major activities in Europe," Mr Murdoch said yesterday.

Yet he has found it easier to penetrate the US with his Fox studio and television network than to break into European television. The biggest exception to this is his 40 per cent stake in British Sky Broadcasting.

His first difficulty has been to persuade entrenched media interests in different countries to let him in. Only when they are losing money have they been eager to negotiate - as in the case of

Vox, the German television channel. Mr Murdoch has 49.9 per cent of Vox, which he was sold by the German media group Bertelsmann. Vox is now near to break-even and News Corporation would like to expand the operations, but Bertelsmann is less eager to invest further.

He still faces some uncertainty with Telecom Italia, which has just appointed Franco Bernabe as its chief executive. Mr Bernabe is the former head of the Eni oil and gas group and one of Italy's most respected managers.

Mr Murdoch talked to Mr Bernabe over the weekend, and the venture has been approved by Telecom Italia's board. But Mr Bernabe has already made clear he will not be pressurised into taking any snap decisions.

The second difficulty is political. Mr Murdoch has aroused strong political opposition to his attempts to build European media interests. That has been evident in Italy, where there have been calls to block his entry to the market.

For this reason, Mr Murdoch was keen to stress he would be a "junior partner" in the new venture with Telecom Italia. "We do not expect to be a sleeping partner, but there is no question as to where control will lie," he said.

Sceptics point out that News Corp holds only 40 per cent of BSkyB yet has been able to exercise management control. Indeed News Corp's experience in turning BSkyB from loss into profit is one of its attractions to potential partners.

The establishment of News Corporation Europe could help Mr Murdoch's broader ambitions in two ways. First, by setting up a subsidiary under Ms Moratti, Mr Murdoch has better chances of gaining approval from Italian politicians.

Mr Moratti could also help to draw RAI, which has so far proved hard to pin down, into the venture. This would give it greater credibility and programming strength in competing with Telepiu, Canal Plus's Italian venture.

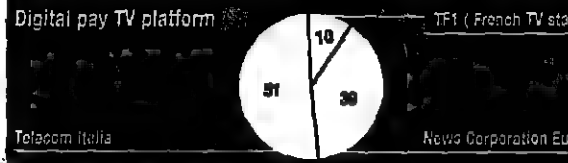
Second, News Corporation Europe could provide a vehicle to draw in other partners. Mr Murdoch indicated that he would be willing to sell up to 20 per cent of the subsidiary to other media owners in Europe such as Leo Kirch.

Murdoch's European broadcasting interests

What he owns now...

	UK	Germany
BSkyB Satellite Television	49.9	49.9
Talk Radio Commercial radio station	20.0	0.0
7MBS Munich-based TV station	0.0	99.0

...the new deal



...and who he has been talking to

	Germany	Italy
Kirch Group Broadcasting and film rights distribution	Yes	No
Mediaset Owned by media tycoon Silvio Berlusconi - Murdoch has twice sought to acquire control	No	Yes
Telepiu Pay TV network based in Hamburg owned by CLT-Ufa, Kirch Group and Canal Plus	Yes	No



GLOBAL REACH IN-DEPTH CAPABILITIES LOCAL INSIGHT INDUSTRY EXPERTISE

CGU

Commercial Union and GA wanted to integrate their insurance market positions and common strategies. We advised CU on this merger to create the world-class international insurer CGU. Subsequently, in a separate transaction, we jointly led a US\$300 million exchangeable bond issue for CGU in respect of its stake in Societe Generale.

Fortis

When Fortis sought to expand its international position in financial services, we advised on the US\$12 billion acquisition of Generale Bank. More recently, during considerable market volatility, Fortis called on us to help them complete a US\$830 million convertible bond issue.

Union Bank of Switzerland

Responding to global consolidation in the banking sector, UBS and Swiss Bank Corp agreed to merge and create Europe's largest financial services company. We advised UBS and provided a fairness opinion to their shareholders.

Dexia

After advising on the cross-border merger that created Dexia, we led the November '96 US\$1.1 billion IPO and the June '97 US\$609 million secondary offering. We have since led a FFR944 million exchangeable issue and, further, a US\$150 million exchangeable bond and a US\$636 million block trade that enabled Dexia to dispose of its holding of ING shares.

Munich Re

Munich Re wanted to improve its competitive position in primary insurance. We advised them on a DM15 billion merger of equals to create ERGO, now Germany's second-largest primary insurer. Shares of both ERGO and Munich Re have since outperformed the market.

Zurich Insurance

We acted as sole adviser to Zurich on its merger with the financial services arm of B.A.T. Industries. The transaction has created one of the world's largest insurance and asset management groups.

HUNGARY BANK FACES COST CUTTING AND MANAGEMENT REVAMP

Postabank chairman aims to shake off past

By Kester Eady in Budapest

Postabank, Hungary's fourth biggest bank, is joining its rivals on the long road to recovery.

A new leadership at the troubled bank, which is set to receive Ft152bn (\$693m) in state aid before the end of the year, has launched a restructuring programme designed to cut costs, shake up management, and clear the bank of loss-making investments.

These moves represent the completion of efforts to rehabilitate Hungary's biggest banks in the post-communist era.

Postabank's large rivals were either restructured or partially sold off in the mid-1990s.

Now, Henrik Auth, the new chairman who took control this summer, says he plans to prepare Postabank for sale, probably to an international bank, over the next two years.

But the bank carries with it heavy political and financial baggage.

For a start, it is struggling to recover from losses accumulated under Mr Auth's colourful predecessor, Gabor Princz.

Mr Princz, a confidant of Gyula Horn, the former Socialist prime minister, invested the bank's funds in everything from a brewery to a Spanish holiday resort, as well as making generous donations to sports and cultural events.

Mr Auth describes the bank as "a complete mess" when he took over in August. "There was no pricing committee, no asset liability committee, no reporting lines. It was a shock for me," he says.

Mr Auth says he sees no industrial logic to the loan book. "It's very surrealistic," he says. "If we want to go on holiday we have a Spanish resort. If we want a beer we have a brewery"

MORGAN STANLEY DEAN WITTER

Amsterdam, London, New York, Paris, Hong Kong, Singapore, Sydney, Tokyo, and other global offices.

COMPANIES & FINANCE: THE AMERICAS

DISABILITY INSURANCE SPECULATION INTENSIFIES THAT CONSOLIDATION IN THE INDUSTRY WILL ACCELERATE

Unum and Provident form \$5bn link-up

By John Authers in New York

Unum and Provident, the two largest disability insurers in the US, yesterday announced a \$5bn merger in an aggressive attempt to build revenues both in the US and internationally.

The deal was received positively on Wall Street, with Unum's shares rising more than 7 per cent by midday, or \$3.1, at \$51.4, while Provident gained almost 11 per cent, or \$3.7, at \$37.

It also intensified speculation that consolidation in the insurance industry would accelerate. Michael

Albanese, of AM Best, the rating agency, said: "We might have seen a temporary lull, but consolidation in the insurance industry is here to stay. Now that the two largest players have been brought together, disability income is going to be even more of a concentrated industry."

Once combined, the companies, which share a reputation for aggressive underwriting, will have more than a third of the US market for disability income insurance, which pays a proportion of salary to people when they are unfit for work.

Both companies said they were confident that no antitrust issues were involved, and that the merger should be completed by the middle of next year.

The companies said they intended to expand through broader distribution. While Unum mostly distributes through companies, Provident sells to individuals.

Individual income replacement insurance has traditionally been sold only to wealthy professionals, such as doctors and lawyers, while the market for middle-income Americans is much less developed.

James Orr, Unum chief executive, will stay on as chairman and chief executive until July 2001, when he will be succeeded by Harold Chandler, Provident chief executive.

Mr Orr said: "We all know that the line between group and individual insurance is blurring more and more all the time."

The new company will attempt to re-model policies currently offered via payroll deductions and sell them to individuals.

They are also looking for international growth, particularly taking advantage of

countries where the welfare state is being reformed.

Unum already has a large business in the UK, through an alliance with Standard Life, and now hopes to offer more individual policies. Mr Orr said it would also attempt to boost sales in Japan, particularly to individuals.

Ann Perry at Moody's Investors Service said: "They are basically piggy-backing individual sales on to the group sales. Unum have done a pretty good job of cross-selling in other businesses. I think the big question is how quickly the combined company will be able to ramp up individual sales."

Under the terms of the merger, Provident shareholders will receive 0.73 shares of the new UnumProvident in exchange for each Provident share.

At the market price at midday yesterday, this values Provident at \$5.18bn.

Microsoft's market power over the distribution of software was so strong that Netscape might still find it hard to compete for AOL's business.

Microsoft's contract gives AOL a high-profile marketing position on Windows, the operating software which drives more than 90 per cent of the world's personal computers.

David Boies, the lead attorney for the US government, said: "Whatever the deal, it does not remove any of the obstacles that Microsoft has placed in the path of competition in this industry."

However, William Newkum, Microsoft's general counsel, insisted the merger "pulls the rug out from under the government. It proves indisputably that in this high-technology business of which Microsoft is a part, no company can control the supply of technology."

"What we are witnessing is a wholesale change in the competitive landscape."

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Microsoft stressed the possible involvement of Sun Microsystems in the merger talks to claim that the software industry was undergoing a fundamental restructuring, which the government should not seek to control.

But lawyers for the US government dismissed Microsoft's claims and suggested the merger might reinforce the case against the world's largest software company.

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Cool thinking earns Canadian group a warm welcome

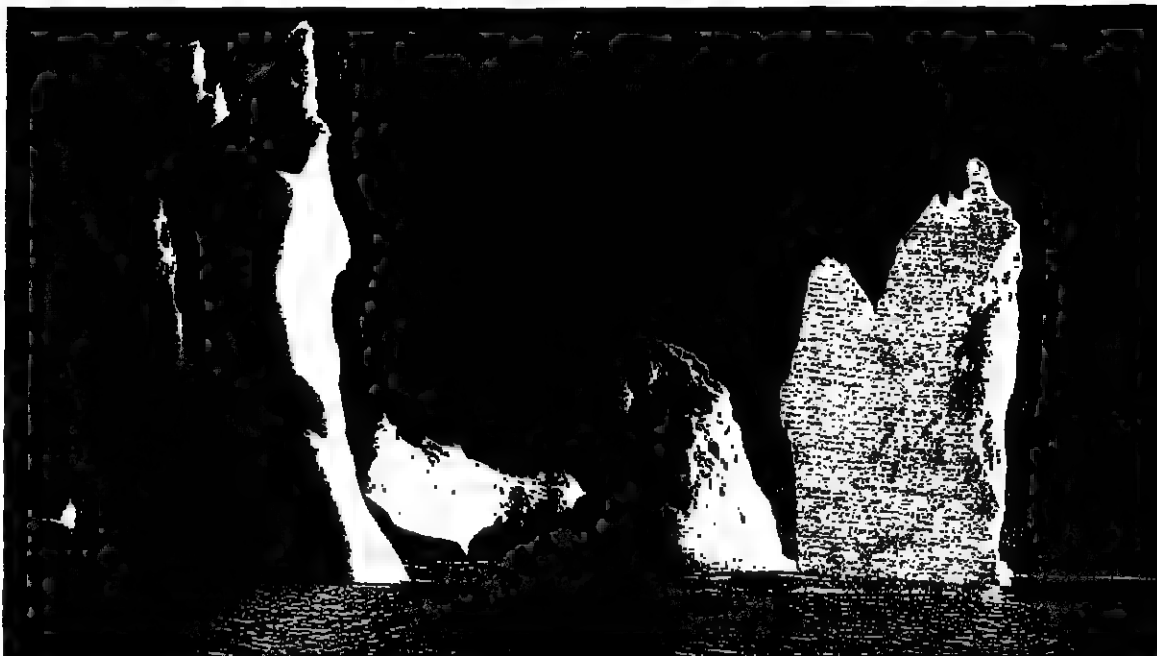
Iceberg Industries has found success tapping what it says is the purest source of water on earth, writes Scott Morrison

The quest to harvest Canadian icebergs to produce pure drinking water is a tale of ingenuity, feuding business associates and an enviable resolve that has so far paid off for one of the former partners.

Ron Stamp, president of Iceberg Industries, won the race to become the first to bottle and distribute iceberg water after he pioneered a process to tear off chunks of icebergs, ship the meltwater back to port and bottle what some regard as the cleanest drinking water on earth.

Based in St John's, the capital of the eastern Canadian province of Newfoundland, the company produces the Borealis brand and also bottles iceberg water for the prestigious President's Choice private label, owned by Canadian retail giant Loblaw. The response from consumers has been so enthusiastic that Mr Stamp's company has had difficulty meeting demand.

A former fish marketer before the depletion of Atlantic cod stocks devastated Newfoundland's fisheries industry, Mr Stamp says he is grateful for, but not surprised by, his success. Newfoundlanders have long known that iceberg water was extremely pure, but none had worked out



Unfrozen assets: glacial ice was formed so long ago it was never exposed to modern-day contamination

to entrepreneur of the year," he said of the day he proved his theory was valid.

Icebergs are parts of glaciers that have fallen into arctic waters. The hard ice "sweats" in warmer water and air, washing away salt that comes into contact with the iceberg. The pure lure of iceberg water is simple: the glacial ice was formed so long ago it was never exposed to modern-day contamination.

Steve Timmins, who works at the CanTest laboratory, said his group found no trace of contaminants nor heavy metal elements in the iceberg water sample he tested.

Mr Stamp managed to raise C\$8.5m (US\$3.5m), which enabled him to rent equipment to test his theory that a granite pincer grapple could tear chunks out of an iceberg.

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NOMURA GLOBAL FUND

Société d'Investissement à Capital Variable
Registered office: 6 Avenue Emile Reuter, L-2420 Luxembourg
R.C. Luxembourg B 31 127

CONVENING NOTICE

The Shareholders of NOMURA GLOBAL FUND are hereby convened to attend an

EXTRAORDINARY GENERAL MEETING

to be held on 21 December 1998 at 11.30 a.m. at the offices of Nomura Bank (Luxembourg) S.A., 6 Avenue Emile Reuter, L-2420 Luxembourg, with the following AGENDA:

1. Amendment of the Articles of Incorporation of the Company;
2. Amendment of Article 5 to allow the Board of Directors to issue within a sub-fund different categories of shares;
3. Change of the date of the Annual General Meeting in each year so as to replace the First Friday in May by the First Friday in June and amend Article 10 accordingly;
4. Amendment of the definition of "Eligible States" in Article 16 so as to include Eastern European States and to amend "European Economic Community" to "European Union";
5. Amendment of Article 18 to allow the Board of Directors to use the technique of "rolling" management charges in adding the following new paragraph at the end of Article 18: "In order to reduce charges and expenses with a view to diversification of the investments, the Board may decide that part or all of the assets of one or several Sub-Funds will be co-managed with all or part of other Sub-Funds of the

Microsoft clai
AOL deal en
antitrust case

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COMPANIES & FINANCE: INTERNATIONAL

CONSOLIDATION • GOODRICH BUYS COLTEC • DOVER CORPORATION SELLS ELEVATORS TO THYSSEN • MERITOR TAKES LUCASVARITY BRAKES • JOHNSON CONTROLS SELLS BATTERIES

Big deal day for manufacturers

By Nikk Tait in Chicago
and Andrew Edgecliffe-Johnson
in London

In the biggest of a wave of multi-million dollar deals to hit the manufacturing sector yesterday, B. R. Goodrich, the Ohio-based maker of aerospace systems and specialty chemicals, announced that it was acquiring Coltec, another industrial and aerospace components manufacturer, in a \$2.3bn share swap deal.

As part of the transaction, Goodrich will move its corporate headquarters and its aerospace divisional HQ to Charlotte, North Carolina, where Coltec is based. The move could affect about 170 staff, some of whom will get relocation offers. Goodrich stressed that its Ohio-based manufacturing operations, which employ about 1,300, would not be affected.

Both companies service the aerospace market, and Goodrich said that an enhanced product range, coupled with the addition of a "third leg" provided by Coltec's engineered industrial products business, was the rationale behind the deal. Coltec is a leading producer of landing gear systems and industrial

sealing products. The combined company, which will be owned two-thirds by Goodrich shareholders and about one-third by Coltec's, will have annual sales of about \$5.5bn, and an estimated market capitalisation of about \$4bn.

The two companies see minimum cost-savings of \$60m a year by 2001, and Goodrich said the transactions should be earnings-enhancing in 1999. By 2001, the deal could add around 15-20 cents to earnings per share. The stock market reacted warmly, with both companies' shares rising - Goodrich by 1 1/2 to 3 3/4% and Coltec by 1 1/2 to 1 3/4%.

Meanwhile, Dover Corporation, the New York-based industrial conglomerate, said that it would sell its elevator division to Germany's Thyssen for \$1.1bn.

The US-based elevator business, the nation's second-largest, had annual sales of around \$890m in 1997, and notched up \$658m in the first nine months of the current year. Pre-tax operating profits in 1997 were \$105m.

Dover had previously announced plans to spin-off the elevator operations as a separate company to its shareholders - a step which

would probably have taken place in early 1999.

In May, Dover said the business did not fit with the group's other industrial operations and would fare better as an independent company. Analysts viewed the elevator operations as a service-type activity which, in spite of strong profits in 1998, would probably offer less attractive returns than some other interests over the medium term.

Dover, which had group-wide sales of \$4.56bn last year, said that the sale to Thyssen would provide a one-off asset sale gain of \$2.30 a share. Dover shares gained 1 1/2 to 3 3/4%.

Over in the automotive sector, which has been a hub of activity for months as companies try to focus their businesses and service original equipment manufacturers on a global basis, deals flowed.

Meritor Automotive, the component supplier which was previously known as Rockwell Automotive, emerged as the buyer of the heavy vehicle braking systems business of the UK's LucasVarity. Lucas, which two weeks ago failed to move its domicile to Wall Street, had put the business

on the market in August as part of its shift away from heavy vehicle activities, but yesterday's price tag is about twice the price expected by most UK analysts.

The braking business had sales of around £175m (\$104,000) in 1997, and net assets of about £65m. No profits were given but the business being sold is thought to be less profitable than the light vehicle braking business which accounted for 90 per cent of Lucas' braking systems sales last year. When Lucas first announced the sale, it also said that it could not sustain a leadership position in a sector undergoing rapid consolidation.

But Meritor, which was floated off from Rockwell in 1997, said that yesterday's price reflected the value of the business to Meritor. It said that the deal should add around \$400m to its sales base and enhance its "geographical market reach", notably in Europe. It would also allow the US company to offer a more comprehensive range of drivetrain systems and components. Meritor shares were up 1/2 to 3/4%.

Finally, Johnson Controls, one of the largest suppliers



A stack of carbon brake discs at a BF Goodrich plant in Pueblo, AP

of automotive interiors, announced that it was selling its industrial battery business for \$135m. The buyer is C&D Technologies, which produces and markets

German group to lift ranking with acquisition

By Tony Barber in Frankfurt

Thyssen, the German industrial group that is merging soon with its historic rival Krupp, yesterday made clear its determination to rise up the list of world lift manufacturers by announcing that it would acquire Dover Elevators from Dover Corp of the US.

Thyssen has for some time been one of the world's most profitable producers of lifts, ranking behind Otis and Dover in the US but ahead of Schindler of Switzerland and Kone of Finland.

Thyssen, which used to be best-known for its steel operations but regards lifts as one of its core businesses, is believed to have held talks with both Dover and Kone in the past couple of years.

Dover was an attractive proposition for the German group because it is particularly strong in the US, where it runs a nationwide service network. Dover Elevators

employs more than 7,000 and has annual sales of almost \$900m.

Thyssen believes that, once US and Canadian anti-trust authorities have approved the takeover, North America will serve as a launching pad for the company's efforts to boost exports to Asia.

With sales of DM2.7bn (\$1.6bn), Thyssen Aufzüge, the parent group's lift manufacturing unit, was rated by analysts at the investment house Lehman Brothers to be the world's fourth largest producer.

Thyssen estimated yesterday that it stood in fifth place but would rise to third as a result of taking over Dover Elevators.

The lift industry is a profitable sector of global industrial manufacturing largely because there are already so many installed lifts which require regular compulsory servicing, according to Lehman Brothers.

NEWS DIGEST

TELECOMS

Saudi government plans privatisation

The Saudi Arabian government is planning to privatise its national telecommunications carrier in the first half of 2000 and has appointed investment bankers J. P. Morgan as overall privatisation advisers. It will be assisted by the Saudi International Bank. Saudi Arabia took the first step earlier this year with the establishment of Saudi Telecommunications (STC) as a joint stock company with the government as 100 per cent shareholder.

According to J. P. Morgan, the operator is now undergoing an extensive restructuring programme. No details of the proportion of the company to be sold or its likely value have been released but according to the authoritative US publication Telegeography up to 80 per cent of the shares could be made available.

With a population of 20.1m, the country had only 2.3m main exchange lines in 1997 and 332,000 mobile phone users. Alan Caine

CANNING

PLM opens plant in Russia

One of the biggest foreign investments to be completed since the Russian crisis in mid-August came on stream last week when PLM of Sweden opened a \$125m canning factory 70km south-west of Moscow. The new plant is designed to process 1.75bn cans a year and will replace imports from the company's Swedish and Austrian plants. Up to August, Russia was one of the world's fastest growing markets for canned drinks.

Frederik Arp, president and chief executive officer of the PLM group, said the decision to build the plant was taken last July when can exports were running at 700m a year. "But that was before the crisis. Now we are projecting a throughput of about 500m cans a year and expect the Russian can market next year to be 50 per cent lower than in 1997. We will make a considerable loss next year and maybe it will take another year before we break even," he said.

PLM has a 52 per cent stake and made a \$60m equity investment in the plant with co-financing from the European bank for Reconstruction and Development and the International Finance Corporation, two Scandinavian funds and the US-based Ball Corporation, which took a 10 per cent stake in the plant. Anthony Robinson, Moscow

BANKING

Discount net income halved

Israel Discount Bank, the country's third largest, yesterday said net income plunged 52 per cent in the first nine months, as an economic slowdown eroded top line income and forced higher doubtful debt provisions. Net income fell from \$52m in the first nine months of 1997 to \$25m in the same period this year. Income from financing activities before provisions fell 9 per cent to \$438m over the same period, while provisions for doubtful debts jumped 19 per cent to \$106m.

Analysts say Discount - the least efficient bank in Israel - must cut costs to recover. "Discount must also clean its book if it is to turn round," said Roni Argi, Israel analyst at HSBC in London. "They are very exposed to the construction and diamond industries."

Discount's management recently settled a labour dispute that has paralysed the bank throughout 1998. The Israeli government, which holds 60 per cent of Discount, is currently seeking a buyer for 30 to 50 per cent of the bank. Avi Machlis, Jerusalem

Absa keeps net profit up

Absa, one of South Africa's big four high street banks, yesterday announced an increase of almost 20 per cent in taxed profit for the six months to September 30 to R663m (\$155m), despite turmoil in the financial markets and a surge in bad debts.

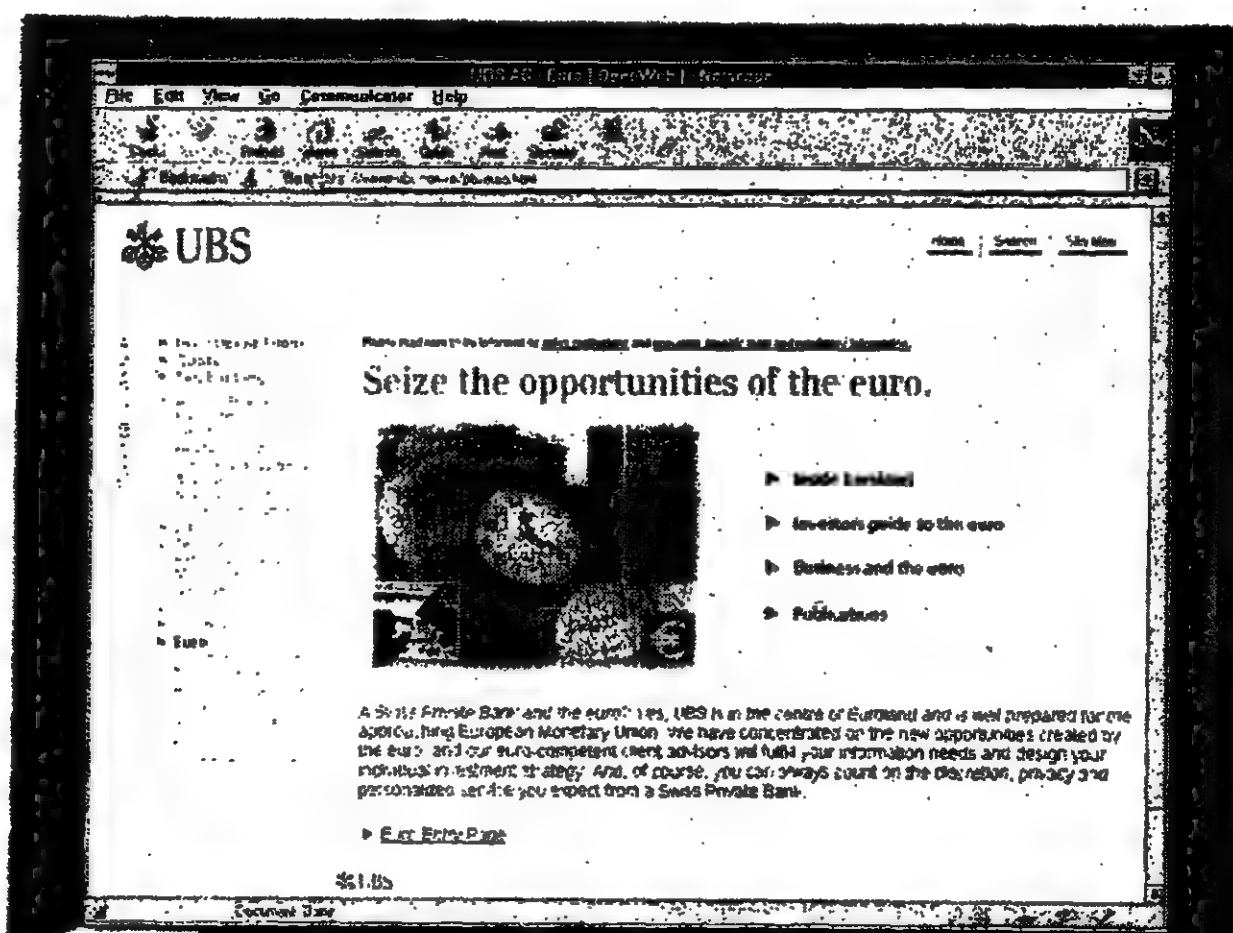
Turmoil in the markets has caused South African banks to complain about squeezed margins, as monetary policy was tightened unexpectedly to defend the rand. The currency came under attack between May and August, causing interest rates to rise to record levels. Absa said its margins had narrowed, but this was offset by strong growth in advances.

The bank lifted its corporate lending by 23 per cent, but held back on consumer lending, where most of its bad debts occurred. Net interest income was up about 13 per cent in the six months to September, compared with the same period last year.

The bank cashed in on the volatility in the markets to make healthy trading profits. In line with other banks, Absa chalked up a strong increase in non-interest income of almost 17 per cent to R2.3bn.

Provision for bad and doubtful debts surged almost 27 per cent, reflecting consumer difficulty in meeting mortgage payments in an environment of record high interest rates. Gréta Steyn, Johannesburg

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COMPANIES & FINANCE: UK

MEDIA GROUP TAKES LEGAL ADVICE AFTER AGREEMENT TO SELL SIMON & SCHUSTER BUSINESSES TO HICKS MUSE COLLAPSES

Pearson's \$860m US deal falls through

By John Gapper in London and William Lewis in New York

Pearson, the UK media company, is taking legal advice after the collapse yesterday of its \$860m deal to sell two publishing businesses to the US private equity firm Hicks Muse, Tate & Furst.

Pearson said it would keep the reference and business and professional publishing operations of the US company Simon & Schuster, which it had intended to sell

to Hicks Muse as part of a \$4.6bn deal with Viacom, the US group.

The UK company, which owns the Financial Times, was yesterday cleared to buy the educational publishing titles of Simon & Schuster from Viacom after selling operations representing \$35m of the \$1.4bn educational revenues.

The disposal of 55 overlapping titles out of 35,000 and an elementary science programme for schools was ordered by the US Depart-

ment of Justice. However, this leaves the businesses that Pearson wanted to acquire largely intact.

The clearance by the US authorities will allow the deal to be completed this week, and is likely to be welcomed by analysts. However, Pearson now faces trying to sell some of the assets that were to have been bought by Hicks Muse.

Pearson reached agreement in July with Hicks Muse to sell on the reference and business divisions for

\$860m when the Viacom deal went through. But Hicks Muse tried to renegotiate the price after revenues fell below estimates.

John Muse, a partner in the US firm, said it had discussed alternative prices and structures with Pearson all last week. "But the bottom line was that we were unable to reach a renegotiated price with them," he said.

Mr Muse said it was only the third time the US group had terminated a contract.

"It had nothing to do with our ability to raise finance. We were prepared to complete at the same multiple as we originally envisaged."

Pearson said it would fold the business and reference arms of Simon & Schuster into current operations. It may keep a set of computer publishing titles, representing 45 per cent of revenues, but all other titles.

Analysts estimate Pearson could keep its year-end debt to about \$2.5bn (\$5.9bn) following the sale of Tussocks

Group and the likely sale of a \$500m stake in British Sky Broadcasting, bringing interest cover to about 3.5 times.

Pearson said it was pleased to have completed the deal for the educational publishing titles largely as planned, and intended to integrate the other operations. It would not comment on possible legal action.

The collapse of the deal was announced after the close of the London stock market.

Boosey shares tumble 20% on warning

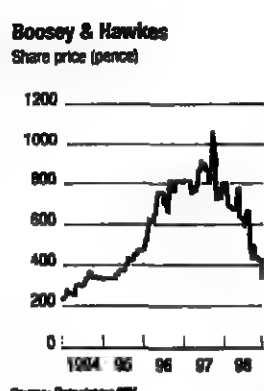
By Robert Wright

Shares in Boosey & Hawkes, the musical instrument maker and music publisher, fell more than 20 per cent yesterday as it warned pre-tax profits for 1998 would be substantially lower than expected.

The south-east Asian, Japanese and Australasian markets had been affected by a downturn in demand, Boosey said. There had also been a slowdown in the UK market, with dealers reducing their holdings of stock, while sales of the company's Rico reeds in the US had been affected by stock reductions by retailers.

The south-east Asian operations would not return to profit this year, despite a cost reduction programme. Richard Holland, chief executive, said: "Everything is primarily related to the far east. That's where our weaker demand has begun. We have seen sales in Japan this year down on last year. This effect has impacted back on our factories."

The company expected underlying profits of about \$7m for 1998, against \$21m in 1997. That, however, did not include costs of about \$1m for closing and restructuring businesses. Nor did it include the \$1.1m cost of



buying out Carl Fischer, the US music publisher that was Boosey's largest shareholder.

The shares dropped 87p to 387p, well below its previous low for the year of 425p. Merrill Lynch, the company's broker, reduced pre-tax forecast for 1998 to \$8m after the restructuring costs, but before the costs of buying out Carl Fischer. That gives earnings of \$1.1p, putting the shares on a forward P/E of just under 18.

Shares in Servomex, the industrial instruments supplier, fell 58p to 98p after it said it planned to spend \$750,000 this year to make full-year savings of \$500,000. The measure was being taken because of a downturn in demand.

GRE confirms takeover talks

By Andrew Edgar

Guardian Royal Exchange, the UK composite insurer, told the stock market yesterday it was in talks to sell all or parts of the company.

Shares in GRE jumped by 42p to close at 350p, valuing the group at just over \$3bn (\$6bn). GRE, the smallest of the UK's big composites, has frequently been touted as a takeover candidate, but its shares had fallen from a spring peak of 495p following profits downgrades and concerns over heavy weather-related losses.

Responding to what it described as recent newspaper speculation, GRE said:

"Against a background of ongoing consolidation in the financial services sector, the company continuously monitors events. It is examining a number of possible alternatives, which may or may not lead to an offer for the company, to determine if any demonstrate sufficient benefit to be recommended to its shareholders."

Axa, the French insurer, recently approached GRE, but the UK composite felt it was not willing to pay enough, although no offer was formally tabled.

Analysts believe weekend press stories came from the GRE camp to flush out any other potential bidders. Morgan Stanley Dean Witter, the

US investment bank, is advising GRE.

Axa already has a controlling stake in Sun Life & Provincial, the UK life assurance company, and has said it wishes to expand in the UK. Axa also does not share the UK stock market's current hostility towards general insurance, which has been suffering from excess capital, low premiums and high underwriting losses.

The more highly rated life business only accounted for 19 per cent of GRE's premium income last year.

GRE could give expanding international insurance companies a significant foothold in the UK, which last year accounted for 42 per cent of the group's premium

income. However, GRE also has significant businesses in Europe - particularly Germany - the US and South Africa.

The UK group is therefore likely to be considered by most of the large insurers which have been consolidating the European market in recent years - such as Assurances Générale de France, Allianz of Germany, and Switzerland's Zurich Group, which recently merged with B&A's financial services business. AIG of the US could also be interested in GRE's property and casualty businesses in the US Midwest and north-east.

GRE's portfolio will also be considered by other UK insurers.

Increased costs dent Salvessen

By Jonathan Ford

Falling demand from customers and rising costs at its industrial logistics division held back interim profits at Christian Salvessen, the logistics group.

The industrial side, which distributes components and end products for customers such as Dunlop Tyres and Du Pont, accounts for about a quarter of Salvessen's turnover.

The group said volumes declined by about 5 per cent as UK industrial output slowed. Costs rose because of a truck driver shortage

which forced the division to hire expensive agency labour.

Overall, pre-tax profits rose by 1.5 per cent to \$19.6m (\$33m) in the six months to September 30, excluding an exceptional gain of \$3.7m.

Sales increased from \$264.1m to \$298.3m and earnings per share were 6.5p (5.1p).

Edward Roderick, chief executive, said the industrial division's cost problems were temporary and would ease as the economy slowed.

He also said it was Salvessen's only UK division with a majority of its business exposed to changes in busi-

ness volumes. Overall, about 80 per cent of Salvessen's business is remunerated by fixed management charges. In the industrial division, where profits dipped 19 per cent to \$8.1m, the figure is just 40 per cent.

Mr Roderick said the group had continued rationalising its facilities, notably selling its loss-making Elstree site to J Sainsbury. Such initiatives helped the food distribution division increase profits by 19 per cent to \$11.8m.

In Europe, profits fell by 25 per cent to \$2.7m despite a 19.6 per cent increase in

turnover to \$57.9m, mainly because of contract losses and start-up costs.

Mr Roderick said rationalisation had helped produce a net cash inflow of \$38.5m, halving gearing to 30 per cent.

The company now has about \$100m to spend on acquisitions in continental Europe, which will be concentrated on Spain, Italy and the Benelux countries.

Salvessen will wait to see how the economy develops in the second half before deciding whether to increase the dividend. The interim is maintained at 2.45p.

Vivendi readies itself for \$500m of hotel disposals

By Charles Pezzoli

Vivendi, the French group formerly known as Compagnie Générale des Eaux, is understood to be preparing to sound out potential buyers for 40 or more of its hotels. These have been estimated to be worth up to \$500m.

Among those who are expected to be interested in the properties are Jarvis Hotels, the UK company which has ambitions to expand into continental Europe.

Jarvis is believed already to have approached potential buyers to invest alongside it in continental Europe and

would be most likely to take on a management role at any properties acquired.

Blackstone, the New York-based investment group which bought the Savoy Hotel group earlier this year, is also thought to be eager to expand into continental Europe. Blackstone and Ramon Pajares, managing director of the Savoy, are understood to have been looking for luxury hotels which could be brought under the Savoy name.

The portfolio of European hotels being marketed, includes the Westin Demere hotels. Some are luxury hotels, including 47 Park Street in London. The

Grand in Amsterdam, the Baltimore in Paris and Les Anglaises in Geneva.

Vivendi also owns a group of about 35 Libertal two or three star hotels. Compagnie Générale d'Immobilier et de Services, the group's property holding company, said it was its policy to sell some assets, "including our hotels". CGIS disposed of FF75.5bn (\$980m) worth of assets in 1997 and has about another FF750bn earmarked for disposal.

Vivendi has been eagerly selling peripheral businesses, cutting debt. It remains spread across water, power, transport, construction, telecoms and media.

COMMENT

GRE

It had to happen. Four of the UK's top five insurers have paired off in the past few years, leaving Guardian Royal Exchange prey to bid speculation. Now it really is in play. While the company has been refining its disparate businesses, this is no match for the whiff of a deal. Investors must be relieved. GRE's shares had slid from 474p in February - when the Commercial Union/General Accident merger was announced - to 230p in October. Its admission yesterday that it would consider auctioning itself off has fanned the recovery. At 350p, the shares are on a modest premium of about 15 per cent to net asset value, adjusted to include the life business's embedded value. This remains well short of the roughly 1.5 times book value paid by Norwich Union for London & Edinburgh. Clearly the value squeezing exercise has some way to run: adding in GRE's goodwill gives a starting point above 380p.

With overcapacity plaguing the general insurance business, most logic would lie in a deal with cost-cutting potential. Royal & Sun Alliance, CGU and Allied Zurich appear to have their hands full with integration tasks. But can they afford to let a big continental rival, such as Axa or Allianz, steal 6 per cent of their home market? Most value might be released by selling parts of the portfolio separately. GRE must be considering doing this itself so that it can benchmark any offers. It is good to see it becoming realistic about the sector's consolidation.

London Electricity

Someone is doing London Electricity a favour. Talk that Electricité de France's bid for London Electricity might face competition problems has helped push up the price. The risk of regulatory delays have to be compensated for by more cash. One issue appears to be that the French electricity market is not as open as the UK's. It is conceivable the European Commission might want to impose conditions on the French in the interests of reciprocity - although France does not have to start implementing a Commission liberalisation directive until next year. But it is difficult to see what objections UK authorities could have. EDF has only 8 per cent of the UK electricity generation market. Trus, EDF, a state-owned monopoly, may undercut UK coal-fired generation. But so can others, such as gas-fired power generators.

TBI's 23% rise aided by growth in airports unit

By Charles Pezzoli

TBI, the airports and property group, yesterday announced a 23 per cent rise in first-half pre-tax profits from \$14.1m to \$17.3m (\$28m) after experiencing strong growth at both its divisions.

The group derived more than two-thirds of profits from its airports, which include Belfast International, Cardiff International, Orlando Sanford International and a 90.1 per cent interest in Stockholm Skavsta airport.

Keith Brooks, chief executive, said: "The outlook for our airports business is encouraging and in the property division tenant demand is holding up well."

Passenger levels at the airports rose 12 per cent in the six months to September 30, which helped boost profits from this division 17 per cent to \$17.6m.

The biggest contributor to the airport division's profits was Belfast International, which produced a 17 per cent increase in operating profits after a 10 per cent lift in

passenger numbers and a 6 per cent increase in the amount spent by each passenger.

Analysts said passenger spending would be hit next year by the expected abolition of duty free shopping within the European Union. This is expected to reduce TBI's turnover by about \$1.6m.

The group is continuing to expand its airports business and is expected to make a new attempt to buy Belfast City airport from Short Brothers after being warned off three years ago by competition regulators.

TBI's property division sold 13 properties in the first half for \$44m, producing profits of \$4.9m.

The group did not make any new investments in properties that were not directly linked with its airports.

Analysts believe the group is slowly exiting the property sector and will be reclassified as a transport group.

Earnings per share rose from 2.64p to 3.26p but the interim dividend is being held at 0.8p.

NOMURA ASIAN INFRASTRUCTURE FUND

Société d'Investissement à Capital Variable
Registered office: 6 Avenue Emile Reuter, L-2420 Luxembourg
R.C. Luxembourg B 34 248

CONVENING NOTICE

EXTRAORDINARY GENERAL MEETING

to be held on 21 December 1998 at 11.30 a.m. at the offices of Nomura Bank (Luxembourg) S.A., 6 Avenue Emile Reuter, L-2420 Luxembourg, with the following AGENDA:

- to approve and ratify the Merger Proposal;
- to approve the merger of NOMURA ASIAN INFRASTRUCTURE FUND (the "Company") with NOMURA GLOBAL FUND, a Luxembourg société d'investissement à capital variable with its registered office at 6 Avenue Emile Reuter, L-2420 Luxembourg ("NGF") into Nomura Global Fund - Asian Infrastructure Sub-Fund upon hearing:
 - the report of the Directors of the Company in relation to the merger proposal (the "Merger Proposal") published in the Mémorial, Recueil des Sociétés et Associations in Luxembourg and deposited with the Chamber of the District Court in Luxembourg; and
 - the audit reports provided by Article 266 of the Luxembourg law on commercial companies;
- to accept the issue without charge of shares without par value of Nomura Global Fund - Asian Infrastructure Sub-Fund (the "New Shares") in exchange for the contribution of all assets and liabilities of the Company, at an issue price based on the net asset value per share of the Company as of the last Valuation Day thereof preceding the Effective Date, as defined in the Merger Proposal;
- to accept the issue of one New Share against one former share of the Company, registered shares (including fractional entitlements) being allocated to the registered shareholders of the Company on the basis of the shareholders' register of the Company on the Effective Date and to bearer shareholders in registered form or, at their specific request, in bearer form upon delivery to the transfer agent of NOMURA GLOBAL FUND of the relevant bearer share certificates with all unrestricted coupons attached thereto;
- to take note that as a result of the merger the Company shall be wound up without liquidation, that all its former shares shall be cancelled and that the assets and liabilities of the Company shall be deemed to be transferred to NGF on the day of the merger, as determined in the Merger Proposal.

The meeting shall be validly constituted and shall validly decide on its agenda if at least one half of the capital is present or represented. The items on the agenda shall be passed at the majority of two thirds of the shares present or represented at the meeting and voting.

In order to take part at the extraordinary general meeting the owners of bearer shares must deposit their shares three clear days before the meeting at the registered office of the Company, 6 Avenue Emile Reuter, L-2420 Luxembourg.

- The following documents shall be at the disposal of the Shareholders of the Company for inspection and copies thereof may be obtained, free of charge, from Nomura Bank (Luxembourg) S.A., 6 Avenue Emile Reuter, L-2420 Luxembourg:
- the text of the Merger Proposal;
 - the prospectus of NGF;
 - the audited annual accounts of the Company at 31 December 1995, 1996 and 1997, its semi-annual accounts at 30 June 1998 and its interim accounts at 30 September 1998;
 - the audited annual accounts at 31 December 1995, 1996 and 1997 of NGF and, its semi-annual accounts at 30 June 1998 and its interim accounts at 30 September 1998;
 - the reports of the Directors of the Company and of NGF;
 - the special report of KPMG Audit.

Proxies should be sent to Nomura Bank (Luxembourg) S.A., at its address above to the attention of Claire Gornes by no later than 18 November 1998.

The Investment Objectives and Policies and dividend policy of NGF - ASIAN INFRASTRUCTURE SUB-FUND are identical to the current Investment Objectives and Policies of ASIAN. The currency of expression of the Sub-Fund as well as the consolidated currency of NGF is USD. The sales charge remains unchanged and is up to 5% of the Net Asset Value of the Shares issued.

Also the Investment Manager, NOMURA ASSET MANAGEMENT UK LIMITED and Investment Sub-Managers NOMURA ASSET MANAGEMENT CO. LTD and NOMURA ASSET MANAGEMENT SINGAPORE LIMITED will remain the same in NGF - ASIAN INFRASTRUCTURE SUB-FUND. The investment management fee, out of which the Investment Advisers are paid, remains unchanged.

NOMURA GLOBAL FUND has the following particulars, which are almost identical to your current structure:

- The cut-off time for submitting your subscription, redemption and conversion orders to be executed on the same Valuation Date is 4.00 p.m. Luxembourg time.
- Prices are available at 4.00 p.m. on each Valuation Date.
- Subscription monies must be paid within 5 Luxembourg business days following subscription. Redemption monies are transferred to you usually within 5 Luxembourg business days following the relevant Valuation Date.
- Redemptions are carried out at the Net Asset Value per share, without redemption charge.
- Minimum initial and subsequent subscriptions must be for an amount equivalent to at least 1,000 USD. Also, should following a redemption request, your residual holding fall below this amount, your redemption request will be considered to be for your entire holding.
- NOMURA GLOBAL FUND is a net, as opposed to your Company, listed on the Luxembourg Stock Exchange, except for the Nomura Global Fund - Asia Pacific Sub-Fund. Application will be made to list Nomura Global Fund - Asian Infrastructure Sub-Fund on the Luxembourg Stock Exchange.
- The accounting year of NOMURA GLOBAL FUND starts on 1st January of each year and ends on the 31st of December. The date of the Annual General Meeting of shareholders is the first Friday in June each year at 3.00 p.m. (or if such day is a not a Valuation Day, on the next following Valuation Day).
- Shares of one Sub-Fund may be converted into shares of another Sub-Fund without charge (except after the fourth conversion in any 12 months period, where a conversion fee of 1% is applied).

The costs relating to the merger are expected not to exceed 100,000 USD and shall be borne by NGF - ASIAN INFRASTRUCTURE SUB-FUND and NGF - JAPAN SUB-FUND proportionally to their net assets.

The Board of Directors

Wella buys Yardley division

By Robert Wright

The receivers of Yardley of London, the "quintessential English" cosmetics group, yesterday made their first sale when the Bath Luxuries division went to Wella, the German cosmetics group.

Tony Thompson and Roger Oldfield of KPMG, the accountants, sold the division for an undisclosed sum, although Mr Thompson said he was "highly pleased" with the price.

Mr Thompson said Bath Luxuries - which made some of Yardley's most famous products, such as Yardley English Lavender and Lily of the Valley - had sales last year of \$10m to \$15m (\$25m), about a quarter of the total. The division also enjoyed gross margins of 45 per cent, making it the most profitable division.

The deal involved intellectual property rights for more than 100 countries. The rights for South Africa and North America have not been sold. Yardley's North American operations are run by a company owned by Wasserstein Perella Management Partners, the US investment bank which also owned Yardley of London.

RESULTS

Company	Revenue (\$m)	Pre-tax profit (\$m)	EPS (\$)	Current dividend (\$)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Adia	5 mths to Sept 27	166.6 (128.8)	8.94 (7.13)	15.01 (12.29)	5.1	Jan 29	4.2	10.85
Cambridge Analytica	Yr to Sept 30	1.35 (1.13)	0.93 (0.81)	31.1 (27.2)	-	-	-	-
Chrysalis	Yr to Aug 31	126.7 (107.8)	1.28 (1.08)	6.82 (5.82)	2.75	Apr 8	2.75	2.75
City of London Plc	6 mths to Sept 30	1.33 (1.24)	0.46 (0.55)	3.95 (4.7)	1.02	Jan 14	1.02	6.16
Parsons	Yr to Aug 31	20.7 (21.7)	2.11 (1.7)	13.1 (11.4)	2.2	Jan 20	2.2	3.2
Goldshield	6 mths to Sept 30	16 (10.8)	2.16 (1.68)	4.17 (4.3)	0.48	Feb 28	1	1
Grainco	Yr to Sept 30	14.5 (12.7)	2.58 (2.08)	1.80 (1.34)	0.7	Jan 8	1	1
Harvest	6 mths to Sept 30	32.7 (35.8)	2.63 (2.18)	10.3 (8.47)	2.75	Jan 20	2.25	7.3
Liberty	6 mths to Sept 30	38.1 (39.1)	3.01 (3.04)	1.04 (1.04)	0.21	Jan 22	0.19	0.8
Weller	6 mths to Sept 30	0.034 (-)	0.718 (-)	4.8 (-)	-	-	-	-
Wells Fargo	6 mths to Sept 28	23.1 (26.5)	1.04 (1.03)	5.37 (5.55)	1.7	Jan 5	1.6	8
Property Asset	6 mths to Sept 30	0.098 (0.11)	0.026 (0.024)	0.001 (0.001)	-	-	-	-
Genetec	Yr to Dec 2	74.6 (72)	12.89 (10.2)	17.4 (15.5)	8	Feb 3	8.9	10.6
Rai	Yr to Sept 30	131 (110.2)	10 (8.2)	8 (6.7)	1.8	Feb 3	2.34	1.9
Salvessen	6 mths to Sept 30	298.6 (264.1)	23.39 (19.3)	6.49 (5.08)	2.45	Feb 1	2.45	5.08
Sheffield United	Yr to June 30	10.3 (8.2)	0.72 (0.57)	13.4 (12.3)	-	-	-	-
Southwest	6 mths to Oct 3	1.07 (1.07)	265.6 (234.4)	1.85 (1.05)	1.48	Apr 8	1.35	4.05
Southwest	6 mths to Oct 3	36.1 (21)	6.17 (3.7)	20.37 (10.53)	4	Jan 8	3	9.5
South South Water	6 mths to Sept 30	47.3 (38.3)	10.3 (10.3)	1.87 (1.28)	57.5	Jan 4	0.5	1.05
Til	6 mths to Sept 30	80.9 (65.9)	17.79 (14.19)	3.25 (2.84)	0.5	Jan 4	0.5	1.75
Ug	6 mths to Sept 31	3.7 (3.9)	0.352 (0.134)	- (-)	-	Dec 21	2	4.825
Weller	Yr to Sept 30	158.2 (125.3)	8.199 (6.89)	25.08 (24.21)	13.5	Mar 12	12.8	17.4

Investment Trusts	Revenue (\$m)	Pre-tax profit (\$m)	EPS (\$)	Current dividend (\$)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Barclays Bank	3 mths to Oct 31	381 (457.7)	0.385 (0.485)	2.92 (3.89)	2.7	Apr 6	2.7	12.4

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *After exceptional charge. *After exceptional credit. *10c increased capitalisation in Australia. *Comprehensive results. *Statutory for year. *Statutory currency. *24 July 31.

BICC fibres sale

By Thorold Barker

BICC, the cables and construction company, has agreed to sell its 50 per cent interest in Optical Fibres to its joint venture partner Corning, the US glass manufacturer, for \$20m (\$45m) in cash.

Corning will also assume the joint venture's \$20m of debt that was all on BICC's balance sheet.

Alan Jones, chief executive of BICC, said the price of optical fibre had fallen by 40 per cent in the last six months.

BICC will continue to sell optical cable, the finished product, and Corning will supply fibre to BICC at a "competitive price" for more than five years.

Optical Waveguides Fibre, BICC and Corning's Australian joint venture will be unaffected by the deal. BICC shares closed up 7p at 85p.

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EURO PRICES

EQUITIES

Takeover talk boosts Europe

EUROPEAN OVERVIEW
By Philip Coggan,
Markets Editor

A wave of merger and takeover stories across the continent ensured another good session for European stock markets yesterday with the Dax in Frankfurt regaining the 5,000 level.

The confirmation of the off-putting talks between Deutsche Bank and Bankers Trust of the US; the tie-up between UK engineering stocks BTR and Siebe; and the approaches to UK insurance group Guardian Royal Exchange ensured a busy day for speculators. Dresdner Bank added fuel to the fire when the chief of the management board said a big merger was a "very clear option" for the bank.

The strength of the dollar against the D-Mark, on the back of concerns about President Yeltsin's health, and a strong start on Wall Street, where the Dow Jones Industrial Average was in sight of its all-time high, also did its bit to help European bourses.

The FTSE Europe 100 index gained 56.78 or 2.2 per cent to 2,700.16, while the broader Europe 300 rose 26.8 to 1,162.08. The FTSE 100

index, which focuses on stocks in the core euro countries, advanced 17.57 or 1.9 per cent to 964.23.

Once again, however, the European blue-chip stocks outperformed the midcaps, where gains were limited to the 0.5 per cent-1 per cent range, a sign the rally is not that broadly-based.

The banks gained 4 per cent, with Deutsche up 1.1 at 126.58 and Dresdner 1.2 at 126.58. And the insurance sector advanced 3.5 per cent, thanks in part to GRE's 0.6 rise to 126.58.

But the best performing sector of the day was trans-

port where the strength of the dollar induced a 4.8 per cent upkick. Lufthansa rose 0.7 to 126.58.

Construction was the main loser of the day, falling 1.2 per cent, with Bouygues continuing its recent poor run and dropping 0.1 to 126.58.

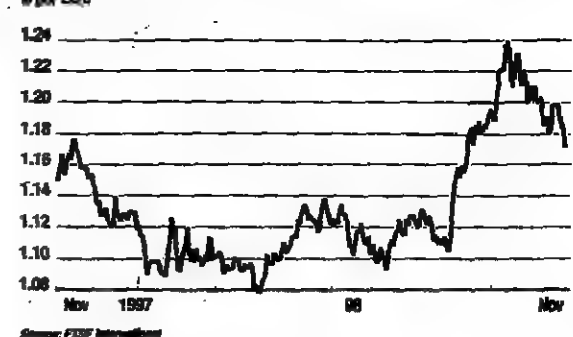
The sheer speed of the stock market rally continues to induce some caution in observers. Goldman Sachs said it has cut its recommended equity weighting for European investors from 60 per cent to 55 per cent, thereby increasing its cash holding from 5 to 10 per cent.

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

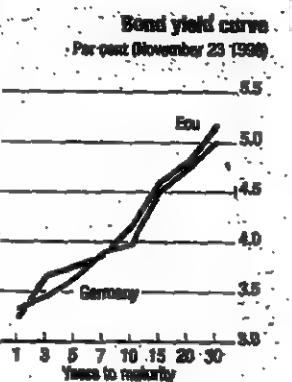
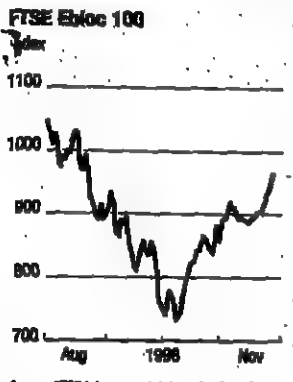
Country	Code	Rate	Change	Change %
Austria	AT	14.049782	-0.0018	-0.01
Belgium	BE	41.102550	-0.0025	-0.01
Czech Republic	CZ	26.915184	-0.0016	-0.01
Denmark	DK	7.460353	-0.0002	-0.00
France	FR	6.563711	-0.0002	-0.00
Germany	DM	1.936281	-0.0002	-0.01
Greece	GR	34.368260	-0.0024	-0.01
Italy	IT	2.363636	-0.0002	-0.01
Japan	JP	167.925151	-0.0040	-0.00
Netherlands	FL	4.111039	-0.0002	-0.01
Norway	NOK	8.770557	-0.0028	-0.02
Poland	PL	4.072282	-0.0010	-0.01
Portugal	PTE	204.94191	-0.0020	-0.00
Spain	PT	166.371268	-0.0020	-0.00
Sweden	SEK	21.322651	-0.0011	-0.01
Switzerland	CHF	1.453522	-0.0002	-0.01
United Kingdom	GBP	1.646329	-0.0002	-0.01
USA	USD	1.646329	-0.0002	-0.01

Synthetic Euro against the dollar



EUROZONE CURRENCY CONVERGENCE

Country	Code	Rate	Change	Change %
Austria	AT	7.0352	0.0001	0.00
Belgium	BE	20.8255	0.0001	0.00
France	FR	3.3537	0.0001	0.00
Germany	DM	3.3537	0.0001	0.00
Italy	IT	1.9363	0.0001	0.00
Netherlands	FL	4.1110	0.0001	0.00
Spain	PT	166.37	0.0001	0.00
Sweden	SEK	21.32	0.0001	0.00
Switzerland	CHF	1.4535	0.0001	0.00
United Kingdom	GBP	1.6463	0.0001	0.00
USA	USD	1.6463	0.0001	0.00



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Austria	AT	14.049782	-0.0018	-0.01
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Spain	PT	166.371268	-0.0020	-0.00
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France	FR	6.563711	-0.0002	-0.00
Germany	DM	1.936281	-0.0002	-0.01
Greece	GR	34.368260	-0.0024	-0.01
Italy	IT	2.363636	-0.0002	-0.01
Japan	JP	167.925151	-0.0040	-0.00
Netherlands	FL	4.111039	-0.0002	-0.01
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Switzerland	CHF	1.453522	-0.0002	-0.01
United Kingdom	GBP	1.646329	-0.0002	-0.01
USA	USD	1.646329	-0.0002	-0.01

INTEREST RATE SWAPS

Country	Code	Rate	Change	Change %
Austria	AT	14.049782	-0.0018	-0.01
Belgium	BE	41.102550	-0.0025	-0.01
Czech Republic	CZ	26.915184	-0.0016	-0.01
Denmark	DK	7.460353	-0.0002	-0.00
France	FR	6.563711	-0.0002	-0.00
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Italy	IT	2.363636	-0.0002	-0.01
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Spain	PT	166.371268	-0.0020	-0.00
Sweden	SEK	21.322651	-0.0011	-0.01
Switzerland	CHF	1.453522	-0.0002	-0.01
United Kingdom	GBP	1.646329	-0.0002	-0.01
USA	USD	1.646329	-0.0002	-0.01

EUROZONE CORPORATE BONDS

Country	Code	Rate	Change	Change %
Austria	AT	14.049782	-0.0018	-0.01
Belgium	BE	41.102550	-0.0025	-0.01
Czech Republic	CZ	26.915184	-0.0016	-0.01
Denmark	DK	7.460353	-0.0002	-0.00
France	FR	6.563711	-0.0002	-0.00
Germany	DM	1.936281	-0.0002	-0.01
Greece	GR	34.368260	-0.0024	-0.01
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Spain	PT	166.371268	-0.0020	-0.00
Sweden	SEK	21.322651	-0.0011	-0.01
Switzerland	CHF	1.453522	-0.0002	-0.01
United Kingdom	GBP	1.646329	-0.0002	-0.01
USA	USD	1.646329	-0.0002	-0.01

GOVERNMENT BOND SPREADS VS ECU

Country	Code	Rate	Change	Change %
Austria	AT	14.049782	-0.0018	-0.01
Belgium	BE	41.102550	-0.0025	-0.01
Czech Republic	CZ	26.915184	-0.0016	-0.01
Denmark	DK	7.460353	-0.0002	-0.00
France	FR	6.563711	-0.0002	-0.00
Germany	DM	1.936281	-0.0002	-0.01
Greece	GR	34.368260	-0.0024	-0.01
Italy	IT	2.363636	-0.0002	-0.01
Netherlands	FL	4.111039	-0.0002	-0.01
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Poland	PL	4.072282	-0.0010	-0.01
Portugal	PTE	204.94191	-0.0020	-0.00
Spain	PT	166.371268	-0.0020	-0.00
Sweden	SEK	21.322651	-0.0011	-0.01
Switzerland	CHF	1.453522	-0.0002	-0.01
United Kingdom	GBP	1.646329	-0.0002	-0.01
USA	USD	1.646329	-0.0002	-0.01

EUROZONE CREDIT SPREADS VS ECU

Country	Code	Rate	Change	Change %
Austria	AT	14.049782	-0.0018	-0.01
Belgium	BE	41.102550	-0.0025	-0.01
Czech Republic	CZ	26.915184	-0.0016	-0.01
Denmark	DK	7.460353	-0.0002	-0.00
France	FR	6.563711	-0.0002	-0.00
Germany	DM	1.936281	-0.0002	-0.01
Greece	GR	34.368260	-0.0024	-0.01
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Switzerland	CHF	1.453522	-0.0002	-0.01
United Kingdom	GBP	1.646329	-0.0002	-0.01
USA	USD	1.646329	-0.0002	-0.01

OTHER INDICES

Country	Code	Rate	Change	Change %
Austria	AT	14.049782	-0.0018	-0.01
Belgium	BE	41.102550	-0.0025	-0.01
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FTSE EUROTOP 300

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Austria	AT	14.049782	-0.0018	-0.01
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Spain	PT	166.371268	-0.0020	-0.00
Sweden	SEK	21.322651	-0.0011	-0.01
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INTERNATIONAL CAPITAL MARKETS

Rise in US Treasury yields

GOVERNMENT BONDS

By Arkady Ostrovsky
and Edward Luce

US Treasuries hit a volatile patch yesterday morning, falling more than a full point in thin trading volumes. Economists attributed the fall to low pre-thanksgiving volumes but also said there were detectable movements towards a steepening of the yield curve.

By early afternoon, the yield on the 30-year US Treasury had risen by about three basis points to 6.25 per cent while the yield on the 10-year had risen to 4.90 per cent. In contrast, the yield on the two-year Treasury benchmark had fallen while the five-year remained flat.

"The Treasury curve is definitely steepening but we still see a positive outlook

for Treasuries," said Luca Jellinek, at Paribas.

However, economists warned against reading too much into the volatility with groundless rumours, including the death of Boris Yeltsin, also swaying sentiment.

In Europe, prices mostly ended higher after finance ministers distanced themselves from earlier calls for swift interest-rate cuts in Europe. The markets had been unnerved by the strength and growing unity of calls for the European Central Bank to cut interest rates as early as possible.

Oskar Lafontaine, the German finance minister, allayed some of those fears when he signalled ECB's independence in setting interest rates. Mr Lafontaine, along with his counterparts, also reaffirmed his commitment to the maintenance of fiscal stability after monetary union.

"The main thrust of the Euro-11 meeting was to recognise the independence of the European Central Bank and rules concerning the stability and growth pact," said Charlie McCreery, Irish finance minister.

Economists were further cheered by economic data from two German states suggesting Germany's inflation rate could have further to fall. Phyllis Reed, economist at Barclays Capital, said inflation could drop as low as 0.7 per cent.

"There's plenty of room to cut rates but the simplest thing is for politicians to keep quiet," said HSBC Markets' Stephen King.

Germany was the only leading European market to see bond prices fall yesterday with the December German bond future settling

0.07 lower at 113.66 on turnover of 333,000 contracts on Burex.

UK gilts ended higher, with the December future on the 10-year gilt rising by 19 basis points to close at 116.10 in London.

Emerging markets continued to rally with J.P. Morgan's benchmark emerging market bond index dropping below a yield spread of 1,000 basis points for the first time since the Russian domestic debt default in August.

Both Brazilian C Bonds and Russian IANs rose sharply early in the day before surrendering the gains to profit-taking in the afternoon.

Richard Gray, at Bank of America, said there was evidence of liquidity returning to emerging market trading.

Economic turmoil helps lift AIM fund

By Jane Martinson,
Investment Correspondent

AIM Global Advisors, part of the Amvescap fund management group, said yesterday that global economic turmoil in the past few months had helped its European money market funds increase 44 per cent in the past five months.

Assets held in AIM's global money market funds jumped from \$450m to \$719m between February and the end of October. Most of the increase came during the summer as the Russian economic crisis and the debate following the near-collapse of Long-Term Capital Management, the hedge fund, hit confidence in stock markets around the world.

AIM said that its funds, which are triple-A rated by Standard & Poor's and Moody's, had benefited from the downgrading of several large European banks in the past quarter as well as the flight to a cash "safe haven".

A company spokesman said: "Money market funds have increased along with the perception of risk in the more traditional forms of holding cash."

Rabobank, the Dutch group, is the sole remaining private sector bank in Europe to be triple-A rated by credit agencies.

Money market funds are open-ended investment companies which invest in a range of cash instruments. They are more popular in the US, where more than \$1,000bn is held in money market funds, than in Europe. However, AIM's asset growth is largely based on demand from European institutional investors. AIM is set to launch a euro-denominated money market portfolio in January.

Philippines considers sovereign bond issue

By Tony Tassell in Manila

Asian countries are preparing to test investor appetite for sovereign bonds from emerging markets.

After the success of Argentina's recent \$1bn offering, China and the Philippines are considering taking advantage of a sharp recovery in Asian secondary debt markets over recent months.

"After experiencing their worst sell-off, Asian bond prices have staged a sharp recovery," said Chris Francis, managing director, fixed income research at Merrill Lynch. "Volumes [on the secondary market] remain thin; however, and the appetite for new issues remains to be tested."

China is thought to be considering reviving its post-pone \$1.5bn yuan offering as early as next week (to be lead-managed by Goldman Sachs and Credit Suisse First Boston) while the Philippines is planning investor roadshows next month for an offer early in 1999. Thailand is also said to be considering a sovereign issue.

The Philippines, one of the countries less affected by the Asian economic crisis over the past 18 months, may be set to raise up to \$1.5bn in three separate issues over the next few months.

The country had earlier deferred a \$500m eurobond issue and a \$500m yen bond offering early this year as increasing risk aversion by international investors pushed Asian bond prices to new lows.

Now with sovereign bond prices recovering in the secondary markets, the offerings are back on the agenda, according to Edgardo Esperitu, the Philippines' finance secretary.

Mr Francis said Philippine sovereign bonds had been one of the leaders in the recovery in Asian credit market, with the yield spread on the benchmark 2006 10-year Philippine bond bouncing back from a low of about 900 basis points over US Treasuries on September 4 to current levels of around 400 points.

Apart from the eurobond and yen bond issues, the

Philippines is lobbying Japan to subscribe to a further \$500m Samurai bond offering as part of that country's \$30bn stimulus package for five Asian crisis-affected countries - Malaysia, Thailand, Indonesia, South Korea and the Philippines.

Under the so-called Miyazawa Initiative, Japan is planning to inject the \$30bn into the reconstruction and recovery of the five economies. Mr Esperitu said Japanese officials were holding talks in Manila this week on a \$6bn "wish-list" of projects and programmes for which the Philippines is seeking assistance.

The Philippines' claims to support from the Miyazawa initiative may, however, be limited by the fact that it remains in relatively better shape than some of its troubled neighbours.

On the Samurai bond offering proposed by the Philippines, Mr Esperitu said Japan would take the remainder of the issue while the remainder would be offered to investment bankers around the world.

Record low coupon from Merck

INTERNATIONAL BONDS

By Edward Luce
and Khosro Merchant

Merck, the US pharmaceuticals company, yesterday set a new record with the lowest coupon ever offered on a 30-year corporate bond issue. The \$500m bond, lead-managed by J.P. Morgan, had a coupon of 5.85 per cent - a spread of 75 basis points over the US Treasury benchmark.

This was a significantly lower coupon than the previous record, which was also set by Merck, in 1996, when it issued a 30-year bond with a coupon of 6.30 per cent.

BankAmerica Corp, the group formed by the merger of NationsBank and Bank of America in September, made its debut in the sterling market. The £250m issue was priced to yield a relatively generous spread of 135 basis

New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book-runner
Merill Lynch & Co	300	5.75	99.1748	Dec 2003	0.268	+128(bps)	Merill Lynch Int
BankAmerica Corp	250	6.125	99.7178	Dec 2010	0.408	+128(bps)	BankAmerica
Abbey Natl Trs Services	150	2.00	101.30	Aug 2001	1.50	-	CBS
Servicio Boliviano-Venezolano	300	6.00	101.779	Dec 2001	0.176	-	J.P. Morgan Securities
World Bank	14.5bn	6.48	100.00	Dec 2003	0.25	-	Goldman Sachs Int

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. * Floating-rate note. ** Fixed-rate price, less shown at offer level. † Floating expected on Thursday. ‡ Indicated coupon premium: 20-25% and yield: 4-4.5%. Callable from 2/2001 subject to 100% tender. Putable on 2/2001. †† Payments in Euro prior to Euro. ‡‡ Long 1st coupon.

points over the 10-year gilt benchmark. It tightened by 2 basis points.

Elsewhere, the euroconvertible market continued its revival with a DM375m debt from Belgian glass company Glaverbel. Proceeds from the issue,

which follows recent

comparable by EBC, the Belgian bank and France Telecom, will refinance the \$334m acquisition of PPG's European glass division.

The success of last week's \$250m issue by Oscar fund-

ing, an SPV for Orico, the

Japanese consumer finance house, is expected to stimulate late money market

trading. However, AIM's asset growth is largely based on demand from European institutional investors. AIM is set to launch a euro-denominated money market portfolio in January.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Country	Yield	Price	Change	Yield	Price	Change
Australia	6.75	101.1710	0.01	6.75	101.1710	0.01
Canada	6.75	101.1710	0.01	6.75	101.1710	0.01
France	6.75	101.1710	0.01	6.75	101.1710	0.01
Germany	6.75	101.1710	0.01	6.75	101.1710	0.01
Italy	6.75	101.1710	0.01	6.75	101.1710	0.01
Japan	6.75	101.1710	0.01	6.75	101.1710	0.01
Netherlands	6.75	101.1710	0.01	6.75	101.1710	0.01
Spain	6.75	101.1710	0.01	6.75	101.1710	0.01
Sweden	6.75	101.1710	0.01	6.75	101.1710	0.01
Switzerland	6.75	101.1710	0.01	6.75	101.1710	0.01
UK	6.75	101.1710	0.01	6.75	101.1710	0.01
US	6.75	101.1710	0.01	6.75	101.1710	0.01

BOND FUTURES AND OPTIONS

Country	Yield	Price	Change	Yield	Price	Change
Australia	6.75	101.1710	0.01	6.75	101.1710	0.01
Canada	6.75	101.1710	0.01	6.75	101.1710	0.01
France	6.75	101.1710	0.01	6.75	101.1710	0.01
Germany	6.75	101.1710	0.01	6.75	101.1710	0.01
Italy	6.75	101.1710	0.01	6.75	101.1710	0.01
Japan	6.75	101.1710	0.01	6.75	101.1710	0.01
Netherlands	6.75	101.1710	0.01	6.75	101.1710	0.01
Spain	6.75	101.1710	0.01	6.75	101.1710	0.01
Sweden	6.75	101.1710	0.01	6.75	101.1710	0.01
Switzerland	6.75	101.1710	0.01	6.75	101.1710	0.01
UK	6.75	101.1710	0.01	6.75	101.1710	0.01
US	6.75	101.1710	0.01	6.75	101.1710	0.01

UK Gilts Prices

Country	Yield	Price	Change	Yield	Price	Change
Australia	6.75	101.1710	0.01	6.75	101.1710	0.01
Canada	6.75	101.1710	0.01	6.75	101.1710	0.01
France	6.75	101.1710	0.01	6.75	101.1710	0.01
Germany	6.75	101.1710	0.01	6.75	101.1710	0.01
Italy	6.75	101.1710	0.01	6.75	101.1710	0.01
Japan	6.75	101.1710	0.01	6.75	101.1710	0.01
Netherlands	6.75	101.1710	0.01	6.75	101.1710	0.01
Spain	6.75	101.1710	0.01	6.75	101.1710	0.01
Sweden	6.75	101.1710	0.01	6.75	101.1710	0.01
Switzerland	6.75	101.1710	0.01	6.75	101.1710	0.01
UK	6.75	101.1710	0.01	6.75	101.1710	0.01
US	6.75	101.1710	0.01	6.75	101.1710	0.01

US Corporate Bonds

Country	Yield	Price	Change	Yield	Price	Change
Australia	6.75	101.1710	0.01	6.75	101.1710	0.01
Canada	6.75	101.1710	0.01	6.75	101.1710	0.01
France	6.75	101.1710	0.01	6.75	101.1710	0.01
Germany	6.75	101.1710	0.01	6.75	101.1710	0.01
Italy	6.75	101.1710	0.01	6.75	101.1710	0.01
Japan	6.75	101.1710	0.01	6.75	101.1710	0.01
Netherlands	6.75	101.1710	0.01	6.75	101.1710	0.01
Spain	6.75	101.1710	0.01	6.75	101.1710	0.01
Sweden	6.75	101.1710	0.01	6.75	101.1710	0.01
Switzerland	6.75	101.1710	0.01	6.75	101.1710	0.01
UK	6.75	101.1710	0.01	6.75	101.1710	0.01
US	6.75	101.1710	0.01	6.75	101.1710	0.01

US Interest Rates

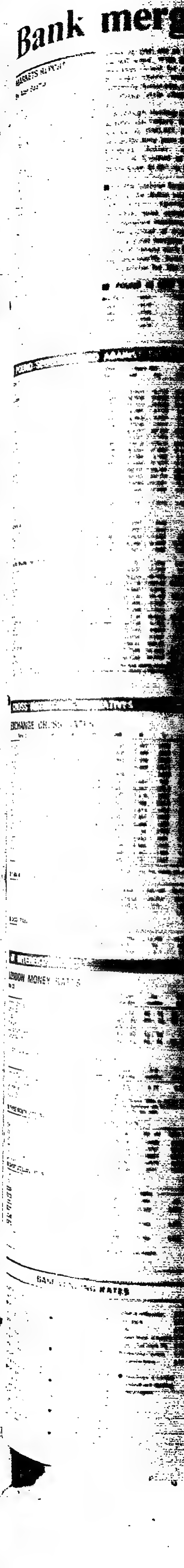
Country	Yield	Price	Change	Yield	Price	Change
Australia	6.75	101.1710	0.01	6.75	101.1710	0.01
Canada	6.75	101.1710	0.01	6.75	101.1710	0.01
France	6.75	101.1710	0.01	6.75	101.1710	0.01
Germany	6.75	101.1710	0.01	6.75	101.1710	0.01
Italy	6.75	101.1710	0.01	6.75	101.1710	0.01
Japan	6.75	101.1710	0.01	6.75	101.1710	0.01
Netherlands	6.75	101.1710	0.01	6.75	101.1710	0.01
Spain	6.75	101.1710	0.01	6.75	101.1710	0.01
Sweden	6.75	101.1710	0.01	6.75	101.1710	0.01
Switzerland	6.75	101.1710	0.01	6.75	101.1710	0.01
UK	6.75	101.1710	0.01	6.75	101.1710	0.01
US	6.75	101.1710	0.01	6.75	101.1710	0.01

UK Gilts Prices

Country	Yield	Price	Change	Yield	Price	Change
Australia	6.75	101.1710	0.01	6.75	101.1710	0.01
Canada	6.75	101.1710	0.01	6.75	101.1710	0.01
France	6.75	101.1710	0.01	6.75	101.1710	0.01
Germany	6.75	101.1710	0.01	6.75	101.1710	0.01
Italy	6.75	101.1710	0.01	6.75	101.1710	0.01
Japan	6.75	101.1710	0.01	6.75	101.1710	0.01
Netherlands	6.75	101.1710	0.01	6.75	101.1710	0.01
Spain	6.75	101.1710	0.01	6.75	101.1710	0.01
Sweden	6.75	101.1710	0.01	6.75	101.1710	0.01
Switzerland	6.75	101.1710	0.01	6.75	101.1710	0.01
UK	6.75	101.1710	0.01	6.75	101.1710	0.01
US	6.75	101.1710	0.01	6.75	101.1710	0.01

UK Gilts Prices

Country	Yield	Price	Change	Yield	Price	Change
Australia	6.75	101.1710	0.01	6.75	101.1710	0.01
Canada	6.75	101.1710	0.01	6.75	101.1710	0.01
France	6.75	101.1710	0.01	6.75	101.1710	0.01
Germany	6.75	101.1710	0.01	6.75	101.1710	0.01
Italy	6.75	101.1710	0.01	6.75	101.1710	0.01
Japan	6.75	101.1710	0.01	6.75	101.1710	0.01
Netherlands	6.75	101.1710	0.01	6.75	101.1710	0.01
Spain	6.75	101.1710	0.01	6.75	101.1710	0.01
Sweden	6.75	101.1710	0.01	6.75	101.1710	0.01
Switzerland	6.75	101.1710	0.01	6.75	101.1710	0.01
UK	6.75	101.1710	0.01	6.75	101.1710	0.01
US	6.75	101.1710	0.01	6.75	101.1710	0.01



CURRENCIES & MONEY

Bank merger talk pushes up dollar

MARKETS REPORT
By Alan Beattie

A wave of equity market exuberance prompted by merger speculation pushed the dollar higher against the D-Mark yesterday, with sterling valiantly trying to keep up.

Most of the limelight was taken by firming news of a planned takeover of US finance house Bankers' Trust by Deutsche Bank.

The possibility of multi-billion dollar inflows in otherwise thin and uninspired markets helped the dollar at one stage to a two-month high against the D-Mark.

The dollar also received some support from renewed concerns about a US attack on Iraq and an apparent case of pneumonia suffered by Boris Yeltsin, the Russian President.

The US currency finished in London trading yesterday at DM1.704, higher than its

close of DM1.689 at the end of last week. With Japanese markets closed for a public holiday there was little action in dollar-yen, the pair finishing little changed at ¥121.0.

Although sterling also rose against the D-Mark, finishing higher at DM2.517, it could not quite keep pace with the surging dollar, against which it finished at \$1.653, down from \$1.657 on Friday.

Of the various factors supporting the dollar yesterday, takeover speculation attracted most attention in the currency markets.

The myriad of ways that international mergers can be financed means such bids do not necessarily have direct implications for the foreign

exchange markets. But the news helped a general wave of equity market optimism in the US, which itself could remove the need for further interest rate cuts by the Federal Reserve and hence strengthen the dollar. The dollar-D-Mark rate correlates well with the performance of US equities.

Paul Meggery, currency strategist at Deutsche Bank, said that while the merger talk involving his employer had played a part in the day's gains for the dollar, there were plenty of other reasons to take a bullish view of the US currency.

The flurry of activity in the dollar has not come out of the blue, said Mr Meggery. "Better news for the emerging market currencies and a return of risk appetite has made it easier for the US to fund its current account deficit."

Mr Meggery thought that in fact more equity purchase-related flows had gone

from the US to Europe over the past year than the other way. "For obvious reasons, the financial services sector is something of an exception," he said.

He thought that the rise in sterling was "a bit surprising" and rather harder to justify in terms of fundamentals. "Eighty or ninety per cent of the rise of sterling against the D-Mark is

just cost-tailing the dollar-D-Mark rise," said Mr Meggery. In contrast to the US, the UK economy was "slowing dramatically" and it would be hard to see sustained gains for sterling against the D-Mark, he added.

Returning investor confidence also helped emerging market currencies yesterday, despite the resignation of three senior Brazilian politicians accused of corruption.

"With Japan on holiday, the market was looking for something to give it direction, and it found the rise in the Dow," said Tim Fox, treasury economist at Stan-

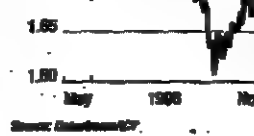
dard Chartered in London. "The markets want to hear good news about emerging markets, and so they will give it credit," said Mr Fox. The Korean won had a particularly good day, breaking through the SKR250 level to close 1.5 per cent up against the dollar.

"Asia is beginning to settle down," said Richard Gray, emerging markets analyst at Bank of America in London.

"The effect of past devaluation is benefiting exports and this explains why currencies like the won are moving upwards."

Mr Gray added that four successful emerging market bond offerings last week, including both eastern European and Latin American issues, had proved that the market is now deep enough to take new volume.

"The Brazil news was unfortunate but came against an overwhelming backdrop of good news," he said.



POUND SPOT FORWARD AGAINST THE POUND

Month	Year	Spot	1m	3m	6m	12m	18m	24m	36m	48m	60m	72m	84m	96m	108m	120m	132m	144m	156m	168m	180m	192m	204m	216m	228m	240m	252m	264m	276m	288m	300m	312m	324m	336m	348m	360m	372m	384m	396m	408m	420m	432m	444m	456m	468m	480m	492m	504m	516m	528m	540m	552m	564m	576m	588m	600m	612m	624m	636m	648m	660m	672m	684m	696m	708m	720m	732m	744m	756m	768m	780m	792m	804m	816m	828m	840m	852m	864m	876m	888m	900m	912m	924m	936m	948m	960m	972m	984m	996m	1008m	1020m	1032m	1044m	1056m	1068m	1080m	1092m	1104m	1116m	1128m	1140m	1152m	1164m	1176m	1188m	1200m	1212m	1224m	1236m	1248m	1260m	1272m	1284m	1296m	1308m	1320m	1332m	1344m	1356m	1368m	1380m	1392m	1404m	1416m	1428m	1440m	1452m	1464m	1476m	1488m	1500m	1512m	1524m	1536m	1548m	1560m	1572m	1584m	1596m	1608m	1620m	1632m	1644m	1656m	1668m	1680m	1692m	1704m	1716m	1728m	1740m	1752m	1764m	1776m	1788m	1800m	1812m	1824m	1836m	1848m	1860m	1872m	1884m	1896m	1908m	1920m	1932m	1944m	1956m	1968m	1980m	1992m	2004m	2016m	2028m	2040m	2052m	2064m	2076m	2088m	2100m	2112m	2124m	2136m	2148m	2160m	2172m	2184m	2196m	2208m	2220m	2232m	2244m	2256m	2268m	2280m	2292m	2304m	2316m	2328m	2340m	2352m	2364m	2376m	2388m	2400m	2412m	2424m	2436m	2448m	2460m	2472m	2484m	2496m	2508m	2520m	2532m	2544m	2556m	2568m	2580m	2592m	2604m	2616m	2628m	2640m	2652m	2664m	2676m	2688m	2700m	2712m	2724m	2736m	2748m	2760m	2772m	2784m	2796m	2808m	2820m	2832m	2844m	2856m	2868m	2880m	2892m	2904m	2916m	2928m	2940m	2952m	2964m	2976m	2988m	3000m	3012m	3024m	3036m	3048m	3060m	3072m	3084m	3096m	3108m	3120m	3132m	3144m	3156m	3168m	3180m	3192m	3204m	3216m	3228m	3240m	3252m	3264m	3276m	3288m	3300m	3312m	3324m	3336m	3348m	3360m	3372m	3384m	3396m	3408m	3420m	3432m	3444m	3456m	3468m	3480m	3492m	3504m	3516m	3528m	3540m	3552m	3564m	3576m	3588m	3600m	3612m	3624m	3636m	3648m	3660m	3672m	3684m	3696m	3708m	3720m	3732m	3744m	3756m	3768m	3780m	3792m	3804m	3816m	3828m	3840m	3852m	3864m	3876m	3888m	3900m	3912m	3924m	3936m	3948m	3960m	3972m	3984m	3996m	4008m	4020m	4032m	4044m	4056m	4068m	4080m	4092m	4104m	4116m	4128m	4140m	4152m	4164m	4176m	4188m	4200m	4212m	4224m	4236m	4248m	4260m	4272m	4284m	4296m	4308m	4320m	4332m	4344m	4356m	4368m	4380m	4392m	4404m	4416m	4428m	4440m	4452m	4464m	4476m	4488m	4500m	4512m	4524m	4536m	4548m	4560m	4572m	4584m	4596m	4608m	4620m	4632m	4644m	4656m	4668m	4680m	4692m	4704m	4716m	4728m	4740m	4752m	4764m	4776m	4788m	4800m	4812m	4824m	4836m	4848m	4860m	4872m	4884m	4896m	4908m	4920m	4932m	4944m	4956m	4968m	4980m	4992m	5004m	5016m	5028m	5040m	5052m	5064m	5076m	5088m	5100m	5112m	5124m	5136m	5148m	5160m	5172m	5184m	5196m	5208m	5220m	5232m	5244m	5256m	5268m	5280m	5292m	5304m	5316m	5328m	5340m	5352m	5364m	5376m	5388m	5400m	5412m	5424m	5436m	5448m	5460m	5472m	5484m	5496m	5508m	5520m	5532m	5544m	5556m	5568m	5580m	5592m	5604m	5616m	5628m	5640m	5652m	5664m	5676m	5688m	5700m	5712m	5724m	5736m	5748m	5760m	5772m	5784m	5796m	5808m	5820m	5832m	5844m	5856m	5868m	5880m	5892m	5904m	5916m	5928m	5940m	5952m	5964m	5976m	5988m	6000m	6012m	6024m	6036m	6048m	6060m	6072m	6084m	6096m	6108m	6120m	6132m	6144m	6156m	6168m	6180m	6192m	6204m	6216m	6228m	6240m	6252m	6264m	6276m	6288m	6300m	6312m	6324m	6336m	6348m	6360m	6372m	6384m	6396m	6408m	6420m	6432m	6444m	6456m	6468m	6480m	6492m	6504m	6516m	6528m	6540m	6552m	6564m	6576m	6588m	6600m	6612m	6624m	6636m	6648m	6660m	6672m	6684m	6696m	6708m	6720m	6732m	6744m	6756m	6768m	6780m	6792m	6804m	6816m	6828m	6840m	6852m	6864m	6876m	6888m	6900m	6912m	6924m	6936m	6948m	6960m	6972m	6984m	6996m	7008m	7020m	7032m	7044m	7056m	7068m	7080m	7092m	7104m	7116m	7128m	7140m	7152m	7164m	7176m	7188m	7200m	7212m	7224m	7236m	7248m	7260m	7272m	7284m	7296m	7308m	7320m	7332m	7344m	7356m	7368m	7380m	7392m	7404m	7416m	7428m	7440m	7452m	7464m	7476m	7488m	7500m	7512m	7524m	7536m	7548m	7560m	7572m	7584m	7596m	7608m	7620m	7632m	7644m	7656m	7668m	7680m	7692m	7704m	7716m	7728m	7740m	7752m	7764m	7776m	7788m	7800m	7812m	7824m	7836m	7848m	7860m	7872m	7884m	7896m	7908m	7920m	7932m	7944m	7956m	7968m	7980m	7992m	8004m	8016m	8028m	8040m	8052m	8064m	8076m	8088m	8100m	8112m	8124m	8136m	8148m	8160m	8172m	8184m	8196m	8208m	8220m	8232m	8244m	8256m	8268m	8280m	8292m	8304m	8316m	8328m	8340m	8352m	8364m	8376m	8388m	8400m	8412m	8424m	8436m	8448m	8460m	8472m	8484m	8496m	8508m	8520m	8532m	8544m	8556m	8568m	8580m	8592m	8604m	8616m	8628m	8640m	8652m	8664m	8676m	8688m	8700m	8712m	8724m	8736m	8748m	8760m	8772m	8784m	8796m	8808m	8820m	8832m	8844m	8856m	8868m	8880m	8892m	8904m	8916m	8928m	8940m	8952m	8964m	8976m	8988m	9000m	9012m	9024m	9036m	9048m	9060m	9072m	9084m	9096m	9108m	9120m	9132m	9144m	9156m	9168m	9180m	9192m	9204m	9216m	9228m	9240m	9252m	9264m	9276m	9288m	9300m	9312m	9324m	9336m	9348m	9360m	9372m	9384m	9396m	9408m	9420m	9432m	9444m	9456m	9468m	9480m	9492m	9504m	9516m	9528m	9540m	9552m	9564m	9576m	9588m	9600m	9612m	9624m	9636m	9648m	9660m	9672m	9684m	9696m	9708m	9720m	9732m	9744m	9756m	9768m	9780m	9792m	9804m	9816m	9828m	9840m	9852m	9864m	9876m	9888m	9900m	9912m	9924m	9936m	9948m	9960m	9972m	9984m	9996m	10008m	10020m	10032m	10044m	10056m	10068m	10080m	10092m	10104m	10116m	10128m	10140m	10152m	10164m	10176m	10188m	10200m	10212m	10224m	10236m	10248m	10260m	10272m	10284m	10296m	10308m	10320m	10332m	10344m	10356m	10368m	10380m	10392m	10404m	10416m	10428m	10440m	10452m	10464m	10476m	10488m	10500m	10512m	10524m	10536m	10548m	10560m	10572m	10584m	10596m	10608m	10620m	10632m	10644m	10656m	10668m	10680m	10692m	10704m	10716m	10728m	10740m	10752m	10764m	10776m	10788m	10800m	10812m	10824m	10836m	10848m	10860m	10872m	10884m	10896m	10908m	10920m	10932m	10944m	10956m	10968m	10980m	10992m	11004m	11016m	11028m	11040m	11052m	11064m	11076m	11088m	11100m	11112m	11124m	11136m	11148m	11160m	11172m	11184m	11196m	11208m	11220m	11232m	11244m	11256m	11268m	11280m	11292m	11304m	11316m	11328m	11340m	11352m	11364m	11376m	11388m	11400m	11412m	11424m	11436m	11448m	11460m	11472m	11484m	11496m	11508m	11520m	11532m	11544m	11556m	11568m	11580m	11592m	11604m	11616m	11628m	11640m	11652m	11664m	11676m	11688m	11700m	11712m	11724m	11736m	11748m	11760m	11772m	11784m	11796m	11808m	11820m	11832m	11844m	11856m	11868m	11880m	11892m	11904m	11916m	11928m	11940m	11952m	11964m	11976m	11988m	12000m	12012m	12024m	12036m	12048m	12060m	12072m	12084m	12096m	12108m	12120m	12132m	12144m	12156m	12168m	12180m	12192m	12204m	12216m	12228m	12240m	12252m	12264m	12276m	12288m	12300m	12312m	12324m	12336m	12348m	12360m	12372m	12384m	12396m	12408m	12420m	12432m	12444m	12456m	12468m	12480m	12492m	12504m	12516m	12528m	12540m	12552m	12564m	12576m	12588m	12600m	12612m	12624m	12636m	12648m	12660m	12672m	12684m	12696m	12708m	12720m	12732m	12744m	12756m	12768m	12780m	12792m	12804m	12816m	12828m	12840m	12852m	12864m	12876m	12888m	12900m	12912m	12924m	12936m	12948m	12960m	12972m	12984m	12996m	13008m	13020m	13032m	13044m	13056m	13068m	13080m	13092m	13104m	13116m	13128m	13140m	13152m	13164m	13176m	13188m	13200m	13212m	13224m	13236m	13248m	13260m	13272m	13284m	13296m	13308m	13320m	13332m	13344m	13356m	13368m	13380m	13392m	13404m	13416m	13428m	13440m	13452m	13464m	13476m	13488m	13500m	13512m	13524m	13536m	13548m	13560m	13572m	13584m	13596m	13608m	13620m	13632m	13644m	13656m	13668m	13680m	13692m	13704m	13716m	13728m	13740m	13752m	13764m	13776m	13788m	13800m	13812m	13824m	13836m	13848m	13860m	13872m	13884m	13896m	13908m	13920m	13932m	13944m	13956m	13968m	13980m	13992m	14004m	14016m	14028m	14040m	14052m	14064m	14076m	14088m	14100m	14112m	14124m	14136m	14148m	14160m	14172m	14184m	14196m	14208m	14220m	14232m	14244m	14256m	14268m	14280m	14292m	14304m	14316m	14328m	14340m	14352m	14364m	14376m	14388m	14400m	14412m	14424m	14436m	14448m	14460m	
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COMMODITIES & AGRICULTURE

ZINC STUDY SAYS NAMIBIA GDP TO RISE 5%

Skorpion to be biggest African mine

By Kenneth Gooding, Mining Correspondent

The scene was set yesterday for development of the Skorpion zinc mining complex in Namibia, destined to be the biggest zinc producer in Africa and one of the top 10 by output in the world.

Skorpion's annual output of 150,000 tonnes of refined zinc should also add about 5 per cent to Namibia's gross domestic product, according to a feasibility study published yesterday.

Shares in Reunion Mining, the London listed company that is earning a 60 per cent share of the project, jumped nearly 30 per cent, or 8p, to 26p after details of the study - by Bateman Minerals and audited by Steffen Robertson Kirsten - were released.

They showed that, according to the Brook Hunt consultancy, the Skorpion integrated mine and refinery should be the lowest-cost producer in the world, with cash operating costs of 23 cents a pound (\$307 a tonne) compared with an industry average of 40 cents. Capital costs are projected at \$279m and total costs, including financing charges, at \$335m.

Reunion was founded in 1988 by geologists, Andrew Woollett, 40, chairman, and his partner Nick Graham, 47, managing director.

Skorpion, situated inside the diamond area known as the "forbidden zone" of Namibia's Skeleton Coast, was discovered in 1978 by a unit of Anglo American Corporation of South Africa.

Anglo completed drilling and metallurgical test work for several years but failed to release the zinc from the ore. However, after it learned of Reunion's success in treating similar ore at the



European potato prices rise sharply

By Paul Solman

Potato prices have risen sharply in Europe as heavy rain in producing regions has hit supplies from key regions in the UK, the Netherlands and Germany.

UK farm prices for potatoes are around twice those at this time last year, and potato futures on the London International Financial Futures and Options Exchange have more than doubled since late October.

"Poor weather conditions have made the harvest late. In the UK 13,000 hectares of potatoes are still in the ground. Normally they'd have been delivered by now," said the British Potato Council's Rob Burrows.

"The premium for good quality potatoes is also being felt by potato products manufacturers and retailers.

"Higher farm prices are having a big impact on us. The wet weather is affecting supplies and squeezing our

margins," said Geoff Calder, managing director of PAS Grantham, which manufactures own-label potato products for supermarkets.

McCain Foods, the brand-name frozen food producer, also said it expected its margins to be hit by the higher cost of raw materials.

"The whole market has been affected by the heavy rain, and we're being forced to pay more for quality," J. Sainsbury, the UK supermarket chain, said yesterday.

Greek pistachio cultivators look to the state for help

With demand far outstripping supply, long-term organisation is needed to help fulfil the crop's potential, writes Kerin Hope

Take a trip to the island of Aegina and you can buy local pistachio nuts on every street corner. But only a fraction of Greece's pistachio production travels further afield than Athens.

Aegina, Greece's best-known pistachio-growing centre, produces about 1,200 tonnes a year. Some 50 tonnes are packaged for sale in duty-free shops at Greece's international airports. Most of the remainder is sold in bulk to wholesalers from the capital.

Pistachio production in Greece has increased from 5,000 tonnes in 1994 to about 8,000 tonnes this year. The Aegina variety has been transplanted to the Attica region around Athens and to Phthiotida in central Greece. They are also grown on the Ionian island of Lefkada and the Halkidiki peninsula in northern Greece but output cannot meet demand.

Bigger disposable incomes have whetted the Greeks' appetite for pistachios, considered a luxury snack until recently. Greek supermarkets chains have started to sell pistachios imported from California and Iran, the world's largest producers.

"There's a much bigger potential for pistachio cultivation in Greece than has been realised. But it has to be organised on a long-term basis," says Anna Chitaniadis, whose grandfather introduced pistachio cultivation to Aegina when he brought trees from Iran at the end of the 19th century.

Greece has about 50,000 stremmata (12,500 acres) of pistachio orchards. Yields range between 150kg and 250kg a stremma, and each tree produces a commercial crop in alternate years.

However, new growers are discouraged by the time it takes for a pistachio tree to produce. It takes seven years before nuts can be harvested and in some areas trees only come into full production after 12-15 years. Pistachios are prone to diseases and careful cultivation is needed to ensure a high percentage of nuts can be easily opened.

On Aegina, where the average orchard covers 10-20 stremmata, a sharp rise in costs has made growers reluctant to invest in improving their holdings.

The premium paid by wholesalers for pistachios from Aegina, which pushed



Rising incomes have whetted Greek appetites for pistachios

the floor price for producers to Dr1,600 a kg this year, is not enough to offset the rise, according to growers.

"Until about 15 years ago, pistachios were a valuable cash crop that provided useful income. Now small growers are barely able to cover their costs," says Costas Papanastasiou, chairman of the growers' co-operative.

Water is scarce and labour costs have soared. Nuts are still picked by hand before being mechanically dried and packed.

Pistachio growing on Aegina also faces competition from tourism and a services sector that caters for an increasing number of residents commuting to Athens. Many orchard-owners have become weekend farmers.

Far from receiving incentives for increasing cultivation on Aegina, growers say they are penalised. Under a programme to reduce tax evasion, the island's pistachio orchards are regarded as indicators of specific levels of income.

"Pistachio cultivation is so much part of the island's tradition people don't think of uprooting their orchards.

Oil falls ahead of Opec meeting

By Robert Corzine, Kenneth Gooding and Paul Solman

Oil prices fell ahead of Wednesday's meeting of the Organisation of Petroleum Exporting Countries.

Brent Blend for January delivery was quoted at \$11.44 a barrel in late trading on London's International Petroleum Exchange, down 24 cents on Friday's close.

The market consensus is that Opec is unlikely to cut output further, and will instead focus on tighter compliance with existing cuts, although some producers have been lobbying for additional action to lift prices.

Jumps in London Metal Exchange aluminium and copper stocks put downward pressure on prices. Macquarie Equities suggested the 5,250 tonnes rise in copper stocks was part of up to 50,000 tonnes of Chilean metal expected to arrive in LME warehouses soon.

The increase of 12,600 tonnes in aluminium stocks resulted from present market tightness that had narrowed the premium between spot and three-month prices and made financing deals off the exchange unprofitable.

"Further large deliveries into LME stocks are likely" as other deals came to an end, Macquarie suggested.

The International Confederation of European Beet Growers said it would ask growers to cut production to reduce the surplus in world sugar stocks. It lowered its European Union sugar export target to 4m tonnes in 1999/2000, compared with 5m tonnes in 1998/99.

White sugar futures remained weak on the London International Financial Futures and Options Exchange. The March contract was \$24.50 a tonne in late trading, against Friday's close of \$24.70.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE									
(Prices from International Metal Trading)									
ALUMINIUM, 99.99% (per tonne)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297
Foreign	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297
AM Official	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5
North close	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5
Open	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5
1000 day turnover	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430
ALUMINIUM ALLOY (per tonne)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	1072-4	1072-4	1072-4	1072-4	1072-4	1072-4	1072-4	1072-4	1072-4
Foreign	1072-4	1072-4	1072-4	1072-4	1072-4	1072-4	1072-4	1072-4	1072-4
AM Official	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104
North close	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104
Open	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104	1071-104
1000 day turnover	7,178	7,178	7,178	7,178	7,178	7,178	7,178	7,178	7,178
COPPER, 99.99% (per tonne)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2
Foreign	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2
AM Official	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2
North close	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2
Open	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2	1912-2
1000 day turnover	2,032	2,032	2,032	2,032	2,032	2,032	2,032	2,032	2,032
ZINC, 99.99% (per tonne)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297
Foreign	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297	1295-1297
AM Official	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5
North close	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5
Open	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5	1294-94.5
1000 day turnover	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430

Precious Metals continued

GOLD, 999.9 (per ounce)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
Foreign	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
AM Official	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
North close	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
Open	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
1000 day turnover	2,032	2,032	2,032	2,032	2,032	2,032	2,032	2,032	2,032
SILVER, 999.9 (per ounce)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72
Foreign	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72
AM Official	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72
North close	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72
Open	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72
1000 day turnover	7,178	7,178	7,178	7,178	7,178	7,178	7,178	7,178	7,178

GRAINS AND OIL SEEDS

WHEAT, 1000 kg (per tonne)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
Foreign	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
AM Official	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
North close	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
Open	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
1000 day turnover	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430

MEAT AND LIVESTOCK

CATTLE, 1000 kg (per tonne)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
Foreign	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
AM Official	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
North close	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
Open	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
1000 day turnover	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430

PRECIOUS METALS

GOLD, 999.9 (per ounce)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
Foreign	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
AM Official	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
North close	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
Open	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0	297.0
1000 day turnover	2,032	2,032	2,032	2,032	2,032	2,032	2,032	2,032	2,032

PULP AND PAPER

PULP, 1000 kg (per tonne)									
Grade	3 months	6 months	9 months	12 months	15 months	18 months	21 months	24 months	27 months
Domestic	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
Foreign	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
AM Official	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
North close	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
Open	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5	129.5
1000 day turnover	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430	40,430

LONDON SPOT MARKETS

1 ...time required on
 2 threshold disposition (9)
 3 Shakespeare's king back-
 4 one resident in Jerusa-
 5 em? (7)
 6 No! Had he let off head of
 7 steam (7)
 8 Stand on - it's part of some-
 9 thing everybody wants (5)
 10 One from the far north led
 11 Racine astray (3)
 12 Big animal stars (5,4)
 13 Racine's people take line
 14 relating to prominent
 15 organ (5)
 16 Beginning with smell of
 17 sodium? (7)
 18 Drunk on not as much? (7)
 19 Racine has to suffer. From
 20 his? (9)
 21 Mark 20 (5)
 22 Regular exercise of the fun-
 23 damental principles of govern-
 24 ment (14)
 25 DOWN
 26 Complete one (9) before
 27 church, it's said (9)
 28 According to Saturday's prize puzzle
 29 solution to yesterday's prize puzzle
 30 on Monday December 7.

1 Catholic Church finally (5)
 2 Catholic watches at the start
 3 - it puts pressure on pupils
 4 (9)
 5 Old area with a seaside
 6 atmosphere (5)
 7 Stop employee becoming
 8 recipient of seeds sold (3,4)
 9 Mischievous Irish member
 10 changed his (6)
 11 Balletic race between
 12 French - discuss (9)
 13 Ron met Len to organise
 14 the recruitment (5)
 15 O'hell's is better still - see
 16 Odd Man Out (9)
 17 Information to summon up
 18 relating to DNA units (7)
 19 First inside was first to be
 20 recorded (5)
 21 Shortly to embrace wife
 22 and become ecstatic (5)
 23 Understood Bill to be hold-
 24 ing bird? Quite the reverse
 25 (5)
 26 Blast off originally with
 27 vigorous enthusiasm (5)

FT MANAGED FUNDS SERVICE

**LUXEMBOURG
(REGULATED) ("")**

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FUND NAME	NAV	YTD %	1Y %	3Y %	5Y %	10Y %	15Y %	20Y %
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
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Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2	18.1	20.3	22.1	24.5	26.8
Prudential International Ltd	1.12	12.5	15.2					

LONDON STOCK EXCHANGE

Bid feast launches Footsie on 130-point rise

MARKET REPORT

By Philip Coggan,
Markets Editor

There is little that the UK stock market enjoys more than a juicy bid story and investors were able to tuck into a rare feast yesterday.

Not only did Guardian Royal Exchange, long regarded as a takeover target, announce that it was considering a number of offers but two of the market's biggest engineering companies, BTR and Siebe, unveiled a link-up.

And there was plenty of

bid talk outside the UK as well, with Deutsche Bank of Germany linking up with Bankers Trust of the US and two US high-tech companies, America Online and Netscape in talks.

All this gave the usual lift to equity markets, as not only did shares in the companies concerned surge ahead but traders searched around for the next potential target. The only bid disappointment came when Bertelsmann, the German media group, dismissed talk of a move for EMI - the latter had been driven up by speculation on Friday.

The FTSE 100 index duly enjoyed its third successive session of three-digit gains, closing up 130.9 at 5,848.4. BTR, GRE and Siebe were the three best performers in the blue-chip index.

The UK market's strength was broadly in line with other European markets, with the Dax in Frankfurt up 2.3 per cent and the Swiss market 2.8 per cent. Wall Street was also supportive, with the Dow Jones Industrial Average up more than 80 points, and within 100 points of its all-time closing high, by the time London finished trading.

Once again, the UK blue chips, the first port of call for institutions trying to get money into the market, performed better than the medium or smaller stocks. The FTSE 250 index rose 58.2 to 4,901.2 while the FTSE SmallCap managed a rise of just 6.7 to 2,060.4.

The bad corporate profit news that has dogged the market in the last few weeks was again evident, in the shape of warnings from Boosey & Hawkes and Servotex, but investors were in no mood to take notice. Footsie has now risen around 1,200 points from the low

recorded on October 5, with the help of rate cuts in both the US and UK.

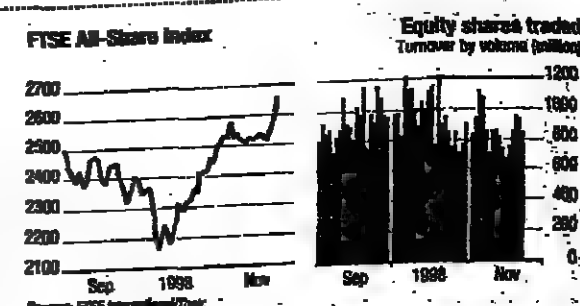
Bob Sample, the BT Alex Brown strategist, points out that bids have been a source of support for the UK market throughout the year with £28bn of cash-funded deals announced by the end of September. But he adds that "what worries me is that everyone has become very sanguine at a time when the corporate earnings news for the next few months will not be good".

At Credit Suisse First Boston, Richard Kersley said: "It is becoming hard to rationalise

the relentless rally in the market on fundamentals alone. The tentative signs of Japan getting its act together and the possibility of a UK rate cut before, rather than after, Christmas, hardly seem enough."

"The suspicion is that the expected trading conditions in December ahead of the introduction of the euro are concentrating activity in November. This seems to be intensifying a stock squeeze within the market."

Volume was 843.4m shares by the 5pm count, of which 45 per cent was in non-Footsie stocks.



Index	Value	Change
FTSE 100	5848.4	+130.9
FTSE 250	4901.2	+58.2
FTSE All-Share	2060.4	+6.7
FTSE 100 Dividend Yield	2.93	-0.01

Best performing sectors	Worst performing sectors
1 Insurance +0.8	1 Oil Exploration & Prod -1.1
2 Engineering +0.5	2 Tobacco -0.4
3 Life Assurance +0.4	3 Pharmaceuticals -0.4
4 Domestic Travel +0.4	4 Property -0.4
5 Utilities +0.1	5 Electronic & Elec Equip -0.1

BTR up on Siebe merger

COMPANIES REPORT

By Martin Brice and Joel Khamis

The merger with Siebe brought some relief to long-suffering BTR investors as shares in both companies raced ahead after the announcement, although some analysts remained bearish on the outlook for the combined group.

Volume in the two accounted for almost 13 per cent of total market turnover. The real action was in BTR shares, which achieved the best performance in the Footsie as they gained 40 per cent or 38 to 133p in remarkable volume of 72m. Earlier this year they stood at 215p.

Analysts suggested the scramble for BTR stock was powered by a hope that the move by Siebe could trigger a bid from another company, perhaps General Electric or KKR of the US.

At last night's close, BTR shares stood at a slight premium to the 139p at which the Siebe offer valued them. Siebe saw 35m traded, and gained 13 per cent or 28 to 243p.

Many analysts took a very favourable view of the deal. Paul Compton at Merrill Lynch said Siebe had struck a good deal because it had bought BTR for a good price,

there were considerable cost savings to be made and there was a good industrial logic in combining BTR's components business with Siebe's software expertise.

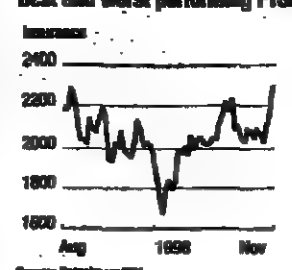
However, not all took a positive view. One analyst said that although the new BTR/Siebe would probably outperform its markets, investors may not want to be exposed to those markets at all. Another said: "The fact is, they are only merging because they are in deep trouble. You could argue they were overvalued before this deal, and they are even more overvalued now."

Another suggested that

with no less than seven leading broking houses linked to the deal, fund managers were being presented with a unanimity of favourable opinion. However, many fund managers would seek the stock because the new company would have an 80p market capitalisation and constitute 1 per cent of the market.

Bid speculation swept through the market as dealers tried to unearth the next takeover target in the wake of the merger announcement by BTR and Siebe, and confirmation by Guardian Royal Exchange that it is looking at options which

Best and worst performing FTSE sectors



may lead to an offer for the group.

Retail group Sainsbury was close to the top of several lists of companies expected to fall prey to a bidder.

Last month the company postponed the demerger of its Freemans mail order business, reported disappointing interim profits and signalled that trading problems would defer recovery in the home shopping division.

Although recent talk that the group had received a takeover approach was dismissed by market specialists, the return of bid rumours yesterday saw the shares advance 12 to 227p.

However, analyst said: "Anyone looking at a bid for Sainsbury will have had to consider what to do with the Freemans business before making a move. That won't be easy in the current economic climate."

Racal Electronics was another mentioned as possible takeover candidate. The shares rose 21 to 325p on the speculation.

Confirmation by Guardian Royal Exchange that it is in talks with several parties over the sale of all or parts

show "improving standards of profitability"

The broker also favours National Westminster which gained 48 to £11.58 and Barclays which said it had no demerger plans at present.

The bank made a statement following a weekend press report which said Barclays was considering the demerger of its retail and corporate banking businesses to reflect fundamental changes going on in the financial services industry.

The stock moved sharply ahead at the start of trading before losing some momentum after the demerger bid still

fridays strong advance in EMI Group proved to be a temporary respite as the shares again tumbled against a firm market trend.

Rumours suggesting News Corp was lining up a bid for the UK music publisher that many regard as ripe for a takeover, made it the best performing stock at the end of last week.

The weekend brought press reports suggesting Bertelsmann was considering a merger or buying a stake in EMI. However Bertelsmann yesterday denied it was

about to make such a move although EMI confirmed it had held talks with the German group about a month ago to discuss opportunities for co-operation. EMI said no proposal has been made by either company to the other and it also said no talks have been held with News Corp.

With investors bracing themselves for a grim set of interim figures today following September's profits warning, the shares surrendered some of Friday's gains to close 27 off at 266p, the worst FTSE 100 performer.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIVER) £10 per full index point

Date	Open	Settle	Change	High	Low	Est. Vol	Open Int
Nov 23	5810.0	5848.4	+131.0	5852.0	5801.0	22891	193796
Nov 24	5868.0	5833.0	+133.0	5821.0	5888.0	1572	18677
Nov 25	5887.0	-	+135.0	-	-	0	10740

FTSE 250 INDEX FUTURES (LIVER) £10 per full index point

Date	Open	Settle	Change	High	Low	Est. Vol	Open Int
Nov 23	4820.0	-	+58.0	-	-	0	848

FTSE 100 INDEX OPTION (LIVER) £10 per full index point

Date	Open	Settle	Change	High	Low	Est. Vol	Open Int
Nov 23	5800	5790	-10	5800	5780	500	500

FTSE 250 INDEX OPTION (LIVER) £10 per full index point

Date	Open	Settle	Change	High	Low	Est. Vol	Open Int
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FTSE 100 INDEX OPTION (LIVER) £10 per full index point

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

Algeria Nov 23/98

Stock	High	Low	Open	Close
Algeria	10.50	10.40	10.45	10.45

Algeria Nov 23/98

Stock	High	Low	Open	Close
Algeria	10.50	10.40	10.45	10.45

Algeria Nov 23/98

Stock	High	Low	Open	Close
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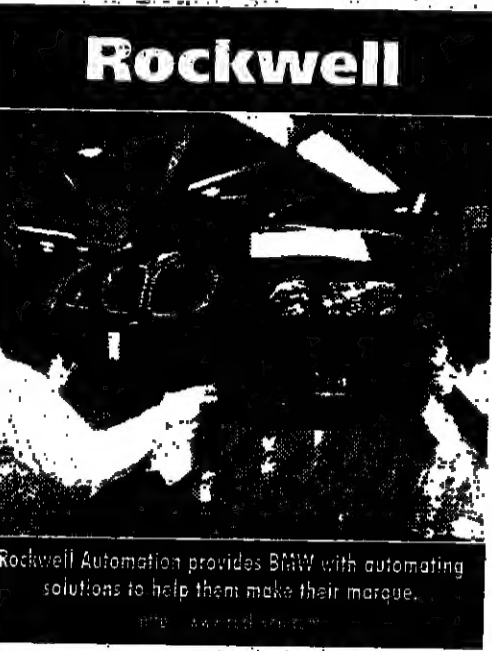
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Rockwell Automation provides BMW with automating solutions to help them make their marque.

FT/S&P ACTUARIES WORLD INDICES

The FTSE Actuarial World Indices are owned by FTSE International Limited, London, and S&P's Actuarial Indices are owned by Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

Index	Value	Change
World	100.00	0.00
North America	100.00	0.00
Europe	100.00	0.00
Asia	100.00	0.00
Africa	100.00	0.00
Oceania	100.00	0.00
Latin America	100.00	0.00
Emerging Markets	100.00	0.00
Developed Markets	100.00	0.00
Frontier Markets	100.00	0.00
Global	100.00	0.00
World	100.00	0.00
North America	100.00	0.00
Europe	100.00	0.00
Asia	100.00	0.00
Africa	100.00	0.00
Oceania	100.00	0.00
Latin America	100.00	0.00
Emerging Markets	100.00	0.00
Developed Markets	100.00	0.00
Frontier Markets	100.00	0.00
Global	100.00	0.00

Emerging Markets

Index	Value	Change
World	100.00	0.00
North America	100.00	0.00
Europe	100.00	0.00
Asia	100.00	0.00
Africa	100.00	0.00
Oceania	100.00	0.00
Latin America	100.00	0.00
Emerging Markets	100.00	0.00
Developed Markets	100.00	0.00
Frontier Markets	100.00	0.00
Global	100.00	0.00
World	100.00	0.00
North America	100.00	0.00
Europe	100.00	0.00
Asia	100.00	0.00
Africa	100.00	0.00
Oceania	100.00	0.00
Latin America	100.00	0.00
Emerging Markets	100.00	0.00
Developed Markets	100.00	0.00
Frontier Markets	100.00	0.00
Global	100.00	0.00

هكذا من الاجل

صحبنا من الامل

Date	Dow Jones Value
Nov 13	8900
Nov 16	9000
Nov 17	8950
Nov 18	9000
Nov 19	9050
Nov 20	9150
Nov 23	9250

Month	Index Value
March 1992	1060
June 1992	1080
September 1992	1075
December 1992	1075
March 1993	1160

	Change	High
0.5	+58.0	3880.0
0.5	+50.5	3896.0
0.0	+113.0	5055.0
0.0	+109.9	5063.0

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THE NASDAO-AMEX MARKET GROUP

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STOCK MARKETS

Merger mania fires bank shares higher

WORLD OVERVIEW

Mega-merger mania gripped equity markets in Europe and the US yesterday, sending already high-flying markets climbing still further, writes Michael Morgan.

Confirmation that Deutsche Bank was about to fulfill long-standing speculation with the takeover of Bankers Trust of the US sent European financials higher. Frankfurt, Paris, Amsterdam and Zurich all saw hefty

activity in their banking issues as the race got underway to pick the next winner in the merger stakes.

Germany's Dresdner Bank shot up 7.6 per cent after its management board chief said a big merger was a "very clear option" for his bank. HypoVereinsbank did even better with a 9.1 per cent surge. Société Générale put on a 5.3 per cent but BNP was the day's winner in Paris with a 7.8 per cent surge.

The news also had an impact in Asia where HSBC led Hong Kong higher, reflecting the powerful performance of financials in London and on Wall Street on Friday and with the Deutsche Bank news fuelling demand for the stock.

Wall St climbed to within 100 points of July's all-time high at mid-session as the Deutsche-BT deal spurred banks and brokerages. Cyber stocks also rallied sharply on news America Online was

in talks to acquire Netscape Communications while Sun Microsystems was interested in Netscape's business software arm.

Sharp rises were also seen in some of Europe's emerging markets as enthusiastic investors refused to be discouraged by what, under other circumstances, might have passed for bad news.

Moscow shot up almost 11 per cent, undeterred by news that President Boris Yeltsin was back in hospital with

pneumonia. In truth, however, the market's rise from recent low levels did not indicate that foreign investors were beating a path back to Russian equities.

Istanbul was another winner, rising 9.8 per cent as tomorrow's census vote, which is expected to topple Mesut Yilmaz's minority coalition, looks set to herald a broader centrist coalition.

Not everyone was ecstatic about the outlook for European equities, however.

Goldman Sachs sounded a note of caution as it reduced the weighting of equities in its recommended European asset allocation for private clients to 55 per cent from 60 per cent, and raised cash to 10 per cent from 5 per cent.

The US investment bank expected European equities to have a total return on a 12 month view of around 5 per cent which did not justify the significant overweight position in equities it had been recommending.

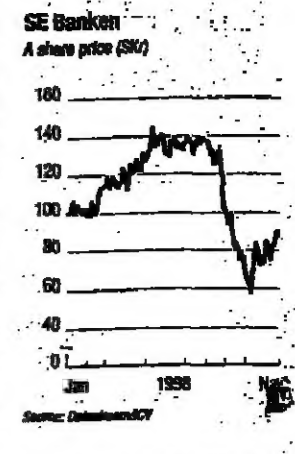
EMERGING MARKET FOCUS

Baltic banks await chill wind

Last week's announcement that Sweden's Skandinaviska Enskilda Banken will buy stakes in two leading Baltic banks, and is negotiating with a third, briefly woke Baltic markets from their slumber.

But activity quickly subsided as investors awaited figures detailing the impact of the Russian crisis on Baltic economies.

Trade in shares of Unibank, Estonia's second biggest bank, was brisk after SE Banken said it planned to take a 32 per cent stake. But Unibank's share price



hardly budged from the SEK24.26 level it attained following two weeks of strong rumours about a possible bid by a foreign bank.

"The terms were close to what the market expected, and the market expected the deal to take place," said Sten Sumberg, chief trader at Tallinn SE Banken will pay SEK40 per share for 15m Unibank shares, to go with the 6m it already holds.

In Riga, Unibank's stock rose about 10 per cent following SE Banken's bid for a 36 per cent stake in the Latvian bank. Analysts said that local investors were relieved Unibank, Latvia's second largest bank, had found a partner.

Unibank has reported poor third-quarter results, and Latvia's central bank recently said Unibank's public accounts did not accurately reflect the exposure of its loan portfolio to the Russian crisis. Unibank made large loan loss provisions in view of the impact of the crisis on local companies.

In Lithuania, shares of Vilniaus bank rose about 30 per cent after SE Banken said it was talking to the bank about a possible strategic investment. Vilniaus Bank shares shored up liquidity on the local stock exchange, with turnover of 2.8m litas last week, the strongest activity in months.

Matej Vipotnik

US stocks climb towards record levels

AMERICAS

A wave of optimism initiated by a renewed bout of mergers and acquisitions activity brought the Dow Jones Industrial Average within reach of its all-time high in early trading yesterday.

By mid-session, the S&P 500 index, the broadest range of large-capitalisation stocks, was up 1.7 per cent at 1,180.47, just below its peak of 1,188.75, set in mid-July before the Russian financial crisis precipitated a sharp sell-off. On August 31, the S&P had touched 957.28.

The Nasdaq composite, weighted towards the largest technology companies, rallied even more strongly, gaining 4.58, or 2.3 per cent, to reach 1,972.79, close to its record of 2,014.25, also set in mid-July.

The Dow broke above 9,300 for the first time in more than four months and was closing on its all-time high of 9,367.

Mergers were the main driver, with many deals which had been long planned, and delayed during the market downturn, being finally brought to the market. These allowed for strength in several different sectors.

Among the most strongly affected companies were Netscape Communications, which rose 3.2%, or more than 7 per cent, to \$42 on the back of reports that it was to be acquired by America Online, up 3.3%, at \$98.

Bankers Trust, the capital markets concern which plans to link with Deutsche Bank, saw its shares rise

almost 10 per cent, gaining \$7.5 to \$85.

Unum and Provident, the two largest disability insurers in the US, which announced they were to merge, both saw rises of about 10 per cent, with Unum gaining 4.4% at \$52.5, and Provident 3.2% at \$37.5.

AMP, the manufacturing group, saw its shares rise 5.4 per cent, gaining \$2.8 to \$54.5, on the news that Tyco International, the conglomerate, had launched a bid.

Coltec also gained more than 10 per cent, up \$1.2 to \$19.5, on the back of the announcement that it was to be acquired by BF Goodrich.

Away from merger situations, international financial stocks all enjoyed a strong day, with JP Morgan and Citigroup both logging rises of more than 5 per cent - Morgan gained 5.4% at \$115.5, and Citigroup rose 5.2% at \$47.5.

TORONTO matched Wall Street stride for stride in early trading, rising 106.94 to 6,628.20 on the 300 composite index at noon following strong gains for bank and technology stocks.

Banks stayed in favour in the wake of recent solid results from the sector. Royal Bank gained C\$3.90 to C\$78.35 and Canadian Imperial pushed up by C\$2.40 to C\$37.65. Bank of Nova Scotia rose C\$1.30 to C\$35.00.

Telecoms shares were also in demand with BCE up C\$1.20 at C\$55.55 and equipment maker Northern Telecom gaining C\$1.15 to C\$40.45. Golds, in contrast, were dull. Barrick fell 40 cents to C\$32.80.

EUROPE

Confirmation that Deutsche Bank was in "advanced" talks with Bankers Trust of the US sent bank shares in Frankfurt steeply higher and lifted the Xetra Dax index 113.08 or 2.3 per cent to 5,024.51.

It was the first time the benchmark index had ended above the 5,000 level in 11 weeks. Volumes were heavy and at the close the market was only 12 points short of the best of the session in spite of late profit-taking.

Deutsche Bank, which touched a high of DM115.50 at one stage, gained DM2.55 to DM109.35 and Dresdner DM5 to DM71.10. Commerzbank added DM1.26 to DM56.11 and HypoVereinsbank rose DM11.26 to DM140.80.

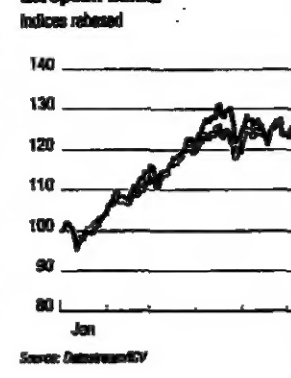
BMW rose DM29.00 to DM119.4 and Deutsche Telekom added DM2.19 to DM49.40 ahead of tomorrow's full third-quarter results which are expected to provide pointers to a solid full-year statement due mid-January.

PARIS also saw plenty of sparkle among bank shares and at the end of a busy session the CAC 40 index was up 43.11 to 3,945.51. BNP took line honours among banks, gaining FF31 or 7.8 per cent to FF429. Société Générale rose FF46 to FF921 and Paribas to FF490. Elsewhere among financials, Axa added FF27 to FF729 on talk that the group is set to make an offer for GRE in a bid to significantly expand its UK insurance operations.

Canal Plus came off FF123 or 8.5 per cent to FF133.9, hurt by news that French rival TF1 and Telecom Italia were in joint venture talks with Australian media giant, News Corp.

AMSTERDAM rose 21.02 or 1.9 per cent to 1,130.85 on the AEX index to extend its gains to 9.3 per cent in six straight sessions following a strong performance by banks and a good run for

European banks index rebound



Akzo Nobel. A UK press report that Akzo Nobel was about to announce the disposal of its Courtauld's packaging arm sent the chemical leader's shares up F14.40 to F181.50. Retailer Asda gained F11.30 to F163.90 ahead of today's third-quarter results statement.

The merger buzz among banks was not lost on the Dutch sector. ABN Amro added F11.10 to F140.40 in 11.1m shares traded while ING, its more diversified rival, rose F14.40 to F114.90.

ZURICH extended last week's gains and after a number of attempts, the SMI index broke through bank resistance around 7,300 points to close the day 196.3 or 2.8 per cent higher at 7,334.3.

UBS and CS Group were in the spotlight, profiting from derivatives-linked buying. CS Group gained Sfr18.50 to Sfr243.25 and UBS rose Sfr22.50 to Sfr442.

Insurers also posted gains, especially Zurich, Sfr34 higher at Sfr793, and Swiss Life which put on Sfr78 to Sfr1,049.

Nestlé, expected to report a 6 per cent rise in 10-month sales tomorrow, gained Sfr30 to Sfr3190.

Alusuisse rose Sfr46 to Sfr1,826 as the market awaited news on the outcome of co-operation talks between the aluminium, packaging and chemicals group and German conglomerate Viag.

Johannesburg slips off highs

SOUTH AFRICA

Shares in Johannesburg ended higher but below their best of the day after negative economic news sparked profit-taking late in the session. The all share index closed

1 per cent better at 5,825.3 with financials supplying most of the upside drive with a rise of 2.8 per cent at 9,149.6. Industrials gained 0.7 per cent to 6,640.2. Golds stayed soft, giving up a further 0.5 per cent to 1,034.4.

São Paulo strengthens

SAO PAULO pushed higher in early trading with solid gains by international stock markets offsetting the negative impact of resignations by three senior government ministers.

At mid-session, the benchmark Bovespa index was up 141 or 1.7 per cent at 8,672. Telecoms giant Telebras was in demand with the receipt up 1.7 per cent to R\$112.40. MEXICO CITY took its cue

from an active Wall Street, advancing 95.65 or 2.4 per cent to 4,091.13 on the IPC index at mid-session. Telcel rose 50 centavos to 24.95 pesos although brokers said volumes were light.

CARACAS made a nervous start with sentiment held in check ahead of tomorrow's start to the latest Opec gathering. At mid-session, the IBC index was off 70.35 or 1.8 per cent at 3,878.28.

Jakarta jumps despite violence

ASIA PACIFIC

Sharp gains were made in JAKARTA as overseas investors continued to buy despite further violence at the weekend. The composite index closed up 21.34 at 424.99, almost 20 per cent higher than last Monday's close.

Telekomunikasi Indonesia, the partially privatised telephone utility, reinforced its recent strong performance with a rise of Rp325 or 11.5 per cent to Rp3,150. It returned to the black in the third quarter of this year

International Monetary Fund. The KSE 100 index surged 50.39 to 1,039.01 in volume that rose to 109m. Analysts said Pakistan's return to an IMF programme was the key to vital multilateral funding, as Islamabad needs to plug a \$5bn gap in external payments for its \$2bn foreign debt.

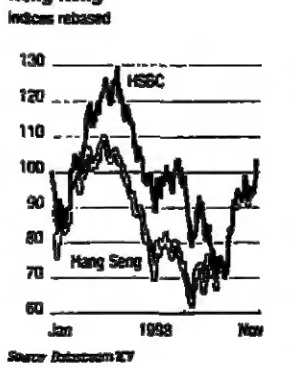
HONG KONG was propelled sharply higher by a 5.9 per cent surge in HSBC and the Hang Seng index closed 281.17 up at 10,514.53. HSBC jumped HK\$11 to HK\$197.50, accounting for 143.72 points of the blue-chip index's gain and almost a quarter of the day's HK\$8.6bn turnover.

The banking giant tracked Friday's powerful performance of financial stocks in London and on Wall Street while news that Deutsche Bank was in talks to buy Bankers Trust of the US fuelled activity.

Property issues helped to drive the market higher, encouraged by apartment sales at the weekend. Sino Land, which sold 1,070 out of 1,268 offered at its Island Harbourview development, was flat at HK\$3.86 after a recent good run. Sun Hung Kai Properties added HK\$1.75 to HK\$57.25 and Cheung Kong 75 cents to HK\$56.

KUALA LUMPUR had one of its best days for weeks as demand from local institutions for index-linked shares

Hong Kong index rebound



sent the composite index up 15.61 to 47.17.

Telecommunications group Technology Resources controlled by businessman Tajudin Ramli gained 9 cents to M\$1.71 on expectations that the company would receive government help to tackle its debt problems.

SYDNEY absorbed modest profit-taking late in the session to close with the All Ordinaries index 44.0 or 12.6 per cent higher at 2,747.6. Turnover remained heavy at A\$1.04bn. News Corp provided the strongest feature, adding 51 cents or 4.8 per cent at A\$11.21 with dealers citing a rebound from the steady selling earlier this month following the media giant's disappointing first-quarter results. Banks continued to press up against fresh highs. Commonwealth

rose 66 cents to A\$21.26 and NAB 31 cents to A\$23.71. BANGKOK made further rapid progress, adding a gain of 18.50 to 390.43 on the SET index to the 11.4 per cent improvement notched up last week. Both foreign and local investors were active.

Money market rates continued to soften, and sentiment was also boosted by rumours of an easing of the rules governing the amount of net settlement undertaken by individual brokers.

Property shares made a late surge, ending 18.4 per cent higher on the sector index. In bank Bangkok Bank rose B\$5.50 to B\$58.50 and Thai Farmers B\$5.50 to B\$57.50.

MANILA finished at a five-month high as investors continued to take comfort from the strength of the peso.

The composite index ended 80.57 higher at 1,922.28. The exchange has climbed 17.4 per cent since the close on November 10. The market was supported by further speculation that Philippine Long Distance Telephone, the dominant telecommunications provider, was about to announce a deal with Metro Pacific, which is majority owned by First Pacific, the Hong Kong based conglomerate. PLDT rose 45 pesos or 4.3 per cent to 1,065 pesos, and Metro Pacific 6 centavos or 2.9 per cent at 2.12 pesos.



People can correspond. Why not banks?

Of course banks can correspond too, but some do it better than others. If you want the right correspondent in Turkey, we suggest you the one which Thomson Bankwatch rated highest among all emerging market banks. The Turkish bank whose high regard in the international financial community generated \$930 million worth of financing in 1997 and \$600 million in the first half of 1998. The bank that has completed several asset-backed securitization programmes

with maturities of 5-7 years. The bank that was selected as the "Best Bank in Turkey" by EuroMoney for 3 consecutive years.

Then again, who could be a better choice than a bank that handles 14% of Turkey's exports and 7% of Turkey's imports? A bank whose foreign currency business volume totalled \$28 billion in the first 7 months of 1998. In short, the bank with global standards and local strength: Garanti Bank.

GARANTI BANK

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